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West Europe: Unity and a Common Market

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Coming Next Month...

THE MIDDLE EAST

April, 1962

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Current History

Vol. 42 MARCH, 1962 No. 247

Our March issue is devoted to a study of the nations of West Europe, their industrial and agricultural growth and their participation in the European "Common Market" or "Outer Seven" economic blocs. Eight articles discuss Europe's development and the movement toward a possible "United States of Europe." Our introductory article notes that "the E.E.C., the Common Market, has become firmly established sooner than could be expected and has developed such momentum that it is now a force for change not only among its six members but for Britain and a good part of the outside world as well."

The Process of European Integration

By William Diebold, Jr.

Director of Economic Studies, Council on Foreign Relations

The *limes* of the Roman Empire, the achievement of Charlemagne, the ideas of Sully, Kant, William Penn and others—these are the conventional starting places for articles on European integration. Certainly the common elements in the cultural and political heritage of Europe have played their part in making the events of the last 15 years possible. But a major part of the European cultural heritage is nationalism and its corollaries, national diversity, conflict of interest and friction. This makes all the more dramatic the way in which European countries have, since the war, increasingly joined together in common efforts, yielded national powers to international bodies and, indeed, made the reaching of agreement among themselves a major aim of policy. The governments that have done these things have not ceased to be national nor have any new international bodies replaced them as the main centers of political power in Europe. Integration has been largely a process of reinterpreting national interests.

This reinterpretation has been influenced by a number of familiar facts and views, such as the relative decline of Europe's power in the world, the ending of empires, the belief that the individual nation-states of Europe could no longer provide adequately for the security and welfare of their people, the Soviet threat, and a sense of the advantages of large, more or less unified, economic units, comparable in scale to those of the United States and the Soviet Union.

Unofficial organizations did much to foster ideas of European unification. First the European Movement and since 1955 Jean Monnet's Action Committee for a United States of Europe have been the most important of these organizations, but there is scarcely a shade of political opinion or an economic or functional interest that has not been represented in the roster of bodies favoring one or another brand of the European ideal. Just how important these groups have been is hard to say. In some of them people came together who were able to influence the policies of their own countries, as civil servants or intellectuals, in politics or economic life. Some groups produced

plans and proposals that governments had to take into account. The whole movement did much to establish a climate of opinion which helped governments get support when they took steps toward integration.

It has been the national governments, however, that took the decisions and adopted the policies that make up the process of integration. Nationalism is not dead in Europe, but it has changed some of its ways.

Though ideas about uniting Europe were in the air, the immediate postwar concern of each country was its own economic and political reconstruction. Even Benelux, a customs union first agreed on in 1944, was slow to take shape because Belgium and the Netherlands faced different problems. When the first round of reconstruction loans from the United States proved inadequate, the stage was set for the Marshall Plan. To justify massive American aid, said Washington, Europe would have to make the greatest possible use of its own resources. That would require close cooperation and, in particular, a breaking of the barriers to the exchange of goods inside Europe.

In these circumstances, most of the countries of Western Europe joined in the first major step towards integration, the creation of the Organization for European Economic Cooperation (O.E.E.C.) and the exchange of extensive and fairly detailed pledges of cooperation. The O.E.E.C. lacked the authority some had tried to give it; it did not produce a unified European recovery program; its limited efforts to coordinate investment had small results. Nevertheless the O.E.E.C. brought intra-European economic cooperation to an unprecedented level and paved the way for what followed.

Two of the major accomplishments of the O.E.E.C. were the progressive removal of quotas on trade among the members and the establishment of the European Payments Union (E.P.U.) which financed some of that trade and removed many of the restrictions of bilateralism. Less clearly visible than these measures was a third major accomplishment. In connection with the allocation of American aid, the annual review of each country's economy, and some E.P.U. operations, national policies and performance were exposed to close criticism from other countries and from the O.E.E.C. secretariat under Robert Marjolin. These confrontations did much to develop the practice of economic cooperation and the sense of common interests and standards. By creating the need to "think multilaterally," as one regular participant put it, this process made an important contribution to integration.

Neither the Brussels Treaty Organization, formed in 1948, nor the Council of Europe, created in 1949, played a great part in economic integration. They also did not satisfy the hopes of some that they would provide the dynamics for broader political integration. By 1950 the belief was growing that no organization that depended on unanimous consent for most action, as the O.E.E.C. and the Council of Europe did, was going to move Europe much farther along the road of integration.

The Emergence of the Six

What Western Europe as a whole could not do, "Little Europe" began. On May 9, 1950, Robert Schuman, the French Foreign Minister, proposed a pooling of Europe's coal and steel industries "under a common High Authority." The step was radical. It not only called for free trade in basic products but proposed putting industries that were traditionally the sinews of war largely under the control of a new "supranational" body to which governments would surrender important powers. Such ideas had been discussed before. The remarkable thing was that a major power should accept them as policy. A number of factors explained the French decision. By far the most important was the need for a new approach to an old problem—Germany.

The victors' original postwar policies toward Germany had been abandoned. Partition, Soviet pressure, the responsibilities of occupation and the effort to strengthen Western Europe all militated against plans to keep the German economy weak. It became very clear that a depressed Germany was a drag on the Western European economy. With economic revival would come not only strength but also autonomy. How could Germany's neighbors guard against the threat that sometime in the future a powerful independent Germany might again be a danger to them—with or without the eastern regions that were under Soviet control?

The Schuman Plan answered the question by offering Germany partnership. If international control over basic industries could not be imposed; perhaps it could be won by reciprocal French acceptance of terms that offered advantages to both countries. More important than any specific features of the pooling and supranational control was the prospect of starting a process through which Germany would become so intertwined with the rest of Western Europe that it would resist any future temptation to turn on its partners. The Germans responded favorably for a variety of reasons, some connected with the prospect of regaining an equal status in Europe and freeing their country from the special disabilities defeat had put on it and some arising from the same "European" sentiments that existed in other countries.

To no one's surprise, the British refused to take part in the Schuman Plan negotiations. France, Germany, Italy and the Benelux countries agreed on a treaty embodying the main elements of Schuman's original proposal, in spite of serious opposition from economic and political groups. The European Coal and Steel Community (E.C.S.C.) came into existence in 1952 and in a short while tariffs and quotas on the movement of coal, steel and iron ore within the Community were removed, subsidies tapered off, and a number of measures were taken to end discriminatory freight rates. Common rules were established for price policies and the new Community made progress in regulating cartels and concentrations.

A high level of demand during most of the period helped greatly. There was far less disturbance to production and employment than many expected. Measures to rationalize high-cost coal production were not very effective until after 1958 when coal surpluses put pressure on producers, especially in Belgium and Germany. At that point, although the Community continued to provide financial assistance, the main decisions were made by the governments. Not yet solved, these problems showed the limitations of partial integration and strengthened efforts to establish coordinated energy policies regulating oil as well as coal.

One of the great innovations of the Schuman Plan was the creation of supranational bodies with real but limited powers. The High Authority—which even had the ability to tax—used its powers with caution, seeking to lead more than to command. Many of its actions required the consent of the governments, in law or in fact. In the intergovernmental Council of Ministers, the nations of the Community developed new ways of working together. In the Assembly, members of the parliaments of the six countries grouped themselves according to political persuasion rather than national views.

Though its powers were only advisory, the Assembly became a center of pressure for stronger measures of integration and more often supported the High Authority than the member governments. Industry and labor were represented in a Consultative Committee while a supranational Court of Justice adjudicated cases involving the actions of governments and the High Authority. In practice the Community proved to have not a clear cut division of powers such as the language of the treaty might suggest, but a mixed system in which national, international, supranational, and private power were intricately mixed in changing combinations.

Setback and Reprise

While the coal and steel treaty was being negotiated, American and British pressure for rearming Germany presented France with a problem it had wanted to avoid. The French reacted by proposing a twin of the Schuman Plan. The new Pleven Plan called for a European Defense Community in which national military forces would be integrated with those of other countries and subjected to something very like supranational command. Later, a looser proposal for a European Political Community was added to meet the logical need for giving unified direction to a unified command. A treaty embodying these ideas was accepted by the other five countries of Little Europe—and then turned down by France in 1954. Through British initiative the Western European Union was formed, in which Germany and Italy joined the Brussels Treaty powers. While providing a framework for dealing with security matters, W.E.U. remained intergovernmental. It seemed as if the tide of close integration were receding.

It was something of a surprise, then, when the foreign ministers of the Six reached sufficient agreement at Messina in June, 1955, to charge a commission under Paul-Henri Spaak with the task of preparing further measures of integration. Out of this effort came the twin Treaties of Rome, signed in March, 1957, which created the European Atomic Energy Community (Euratom) and the European Economic Community (E.E.C.).

Euratom, while it has proved to be a useful, working organization that has saved Europe time and money through cooperative research programs, has been less important than was expected because changes in the world's fuel economy postponed the time when atomic energy would be a paying proposition in Western Europe. In contrast, the E.E.C., the Common Market, has become firmly established sooner than could be expected and has developed such momentum that it is now a force for change not only among its six members but for Britain and a good part of the outside world as well.

In a treaty too long and intricate to be fully summarized here, the six countries agreed on many things. The most concrete were a series of steps that would create a customs union, with no barriers to trade among themselves, and a common tariff on imports from the rest of the world. Living up to the idea that they were creating an economic community and not just a new trade bloc, the six governments also agreed, but in more general terms, to provide for free movement of labor and capital, to coordinate their financial and economic policies, to establish common rules concerning competition and to take other steps that would draw their economies closer together. Two funds were established to help finance investment and economic adaptation in Europe and to aid overseas territories associated with the Community—mostly French-speaking Africa.

Like the Coal and Steel Community E.E.C. has an intergovernmental Council of Ministers and a supranational, or independent, executive, the European Economic Commission. On paper the Commission is weaker than the High Authority, but the provisions of the Rome Treaty seem not too different from the allocation of power that has emerged in practice in the E.C.S.C. The same Court and Assembly now serve all three Communities.

Although it is often said that the ultimate aim of the Six is to establish some kind of United States of Europe, their treaty does not say so. Its preamble speaks of a determination "to establish the foundations of an even closer union among the European peoples"—and that is about all. It is true, though, that many of the champions of European integration have had their eyes on future political integration and that the logic that has brought the Six this far points ahead. The governments have always made it clear that their main motives in joining together were broadly political.

Progress in the Common Market

To create the customs union, the treaty allowed a period of 12 years during which tariffs were to be reduced according to a schedule; it provided several escape clauses which could extend the period to 15 years. Familiar with the difficulties of removing long-established trade barriers and aware of the hard bargaining and extensive compromising that had gone into the drafting of the treaty, many observers thought it only realistic to suppose that the process would move as slowly as was legal and perhaps more slowly than that. Instead, the Six have moved ahead more rapidly than the original schedule called for and there is a good chance that further acceleration will be agreed on during the next two years. This development is of the utmost importance. Now one must assume that the customs union will almost certainly be created, and before too long. Moreover, the acceleration has demonstrated a degree of solidarity in the Community that has to be reckoned with as a new fact in the world. It was this as much as anything that forced the British to reexamine their policy toward Europe.

Three closely connected developments made the acceleration possible: prosperity, the reaction of business, and the changed position of France. These factors are likely to continue to have an important bearing on the progress of the Community.

The 1950's were a time of great prosperity and economic growth for Western Europe.

A formal seal was put on the regained economic strength of the area when its principal currencies were made convertible for nonresidents in December, 1958. Economic expansion, and the expectation that it would continue, made it easier to take the first steps to cut tariffs (and even to extend some of the benefits to outside countries) than if the threat of unemployment and unprofitability had hung over every industry.

The attitude of businessmen was also affected. Many of them had opposed the Common Market or worried about what it would do. After the Community came into being at the beginning of 1958 they rushed to meet the inevitable. In great numbers, businessmen seem to have reasoned that if tariffs were to disappear by stages, they might as well prepare immediately to meet new competition and to establish themselves in the foreign markets that would later be fully opened to them. New investments, trade and marketing drives, agreements with producers in other E.E.C. countries all reflected this view. Since the businessmen were behaving as if the Common Market were just around the corner, not a decade and more off, there was obviously no need for the governments to go slow.

Put this way, it sounds as if prosperity created the Common Market and not the Common Market prosperity. That is largely correct. The frequently-heard converse, that Europe is prosperous because of the Common Market, is much harder to demonstrate. At least until about 1961 the amount of tariff reduction was not great enough to explain the rate of expansion. Still, business behavior in anticipation of the Common Market undoubtedly contributed to the boom, especially by stimulating investment. Economically, we can argue long about cause and effect. Historically, the important thing is that prosperity and the Common Market have marched together in Europe.

The third change making acceleration possible was in France. The originator of many of the steps toward European integration, France, over the years, had also been in some ways a drag on the process. Though its economy was expanding and its basic productive plant getting stronger, France was continually plagued with inflation and balance of payments difficulties. Domestic politics frustrated efforts to take corrective measures. A strong protectionist tradition was another barrier to trade liberalization. A number of the escape clauses or delaying provisions in the Treaty of Rome were designed with France in mind. The document was full of compromises that were essentially concessions by all the other partners, and especially Germany, to France. One of the largest question marks over the Community at the outset was whether France would be able to live up to its commitments.

An answer came from a surprising source, General de Gaulle, who came to power about six months after the Common Market was established. With a somewhat ambiguous record on European integration, de Gaulle was no champion of the methods and institutions adopted by his predecessors. But the measures he took to put France's economic house in order went far to prepare his country for the challenge of the Common Market.

While it contributed to the acceleration of tariff reduction, the advent of the Fifth Republic brought other uncertainties to the European Community. De Gaulle is no admirer of supranational bodies. *L'Europe des patries* is his formula. Only the nation embodies legitimate political power, in this view, but nations may work closely together and may create international bodies that serve common purposes. While this attitude has undoubtedly had an effect on the distribution of power in the Community, it has not so far been an obstacle to integration. The proposal the Six are now considering for more continuing cooperation in foreign policy stems from France. In January it was France that forced Germany to choose between accepting some major elements of a common agricultural policy or delaying the passage of the Community into its second stage. Whatever one may think of the economics of this step, it extends the Community and does not delay its realization.

Both these changes in the French position —that helping acceleration of the customs union and that strengthening the intergovernmental element in the Community—have influenced Britain's approach to the Community.

Little Europe got started in 1950 and remained a group of six largely because Britain was not prepared to embark on the course

of close integration the others chose. There were many reasons for this. A principal factor was unwillingness to accept supranational institutions and the idea of an eventual United States of Europe. Britain did not want to be enclosed in a purely European organization because of the strain it feared would be placed on Commonwealth ties and its special links with the United States. Economically, the British thought in global terms and felt that throwing in their lot with a purely European group would create problems for their overseas trade and the international position of the pound sterling and the City of London.

Britain and the Community

As its leading role in the O.E.E.C. had demonstrated, Britain was prepared for close economic cooperation with the Continent, but always on terms that permitted London to keep most of its freedom of action in the outside, global economy. A treaty of association with the Coal and Steel Community provided means of dealing with some mutual problems. Some cooperation with Euratom has proved possible, partly through a second international organization under O.E.E.C. auspices. It was the Common Market that presented the real problem. If it were realized as planned, Britain would eventually find itself outside a common tariff wall, so that its exports would be handicapped in the major markets of the continent compared with those of France and Germany.

Britain first proposed a free trade area that would include the Six and the other members of the O.E.E.C. These countries would gradually remove tariffs and quotas on trade in industrial products among themselves. Agricultural trade would be treated separately and each member would keep its own tariff and trade policy in relations with the rest of the world. The E.E.C. would continue to exist but the other members of the free trade area would not make similar commitments to form an economic union. Long negotiations failed.

Technical difficulties played a part in the failure but two other elements were much more important. One was the continental feeling that the proposed bargain was one-sided: Britain would get free access to a larger market than it opened to the others and without undertaking the responsibilities they had agreed to accept. The other was the belief that the future of the Community would be jeopardized if its most concrete immediate benefits were given to a number of other countries that did not join it. The ability of the Community to achieve internal solidarity would be weakened if it had no clear external frontier, so to speak. Also contributing to the failure of the negotiations was the pervasive suspicion that the British really wanted to break up the close cooperation between France and Germany that was at the heart of the Community.

Britain's next step was to join with Denmark, Sweden, Norway, Switzerland, Austria and Portugal to form the European Free Trade Association (E.F.T.A.), a free trade area for manufactured goods, bolstered by bilateral arrangements for certain agricultural products and a few provisions concerning other aspects of cooperation. While E.F.T.A. promised some economic benefits for its members it was widely regarded as a move to improve the Outer Seven's chances of striking a bargain with the Six later on. The Community made it clear it was not interested in this approach but would deal singly with any outside country that felt itself hurt by the Common Market or that wished to seek association with it.

The United States made it clear that while it was concerned that the division of Europe into two trading blocs should not weaken the free world politically, it was not prepared to press the Six to negotiate for a free trade area. Washington took the lead in replacing the O.E.E.C with the O.E.C.D. (Organization for Economic Cooperation and Development), with full American and Canadian membership, and a charter that reduced its functions in matters of intra-European trade and payments.[1] The decision to accelerate tariff reduction in the E.E.C. and to move faster towards the common external tariff demonstrated the determination of the Six to push ahead with their plan and increased the degree of discrimination against products from outside the area.

The British apparently concluded that they were facing some new facts and that their earlier position would have to be re-exam-

[1] For the text of the O.E.C.D. Communiqué, see p. 180 at this issue.

ed. In public discussion and inside the government the arguments for and against membership in the E.E.C. were debated while ways were sought of solving the problems Britain was bound to face if it tried to join the Six. The sluggishness of the British economy in contrast to the expansion in Europe, the willingness of British industry to face increased competition, changes in the Commonwealth, and a benevolent American attitude toward the prospect of British membership all went into this calculation. The basic decision, however, must have been taken on the grounds of a fundamental assessment of the future of Britain's political and economic relationship to Europe and to the rest of the world.

The Community and the World

Of course, Britain is not yet in. Long and difficult negotiations have only begun. But there is little doubt that the British bid is serious and the chances are good that it will succeed. Britain has agreed to accept the agreed-on common tariff for the most part, though it hopes for a reduction of some rates on raw materials. It seems reconciled to some changes in agricultural policy to conform with the practice of the Common Market countries. Britain wants assurance that the interests of the remaining members of E.F.T.A. will be adequately taken care of and that the Commonwealth is reasonably well satisfied. Serious problems arise on this last count, especially concerning Britain's traditional imports of tariff-free food from the temperate zone members of the Commonwealth and the place of the tropical, and especially African, Commonwealth producers whose French-speaking neighbors already have a preferred position in exporting to the Common Market.

This is not the place to speculate on how such problems may be solved but there is something that all likely solutions have in common: they magnify the impact of the Common Market on the outside world. This is true whether Commonwealth countries become associated with the Community or are dealt with in a less formal fashion, whether they lose a privileged position in Britain or gain one on the Continent. What happens to them affects their competitors, too, in Latin America, the United States and Asia. Similarly, the British decision affects the position of the other European countries outside the Common Market. Some, such as Denmark, Ireland and probably Norway, are likely to follow Britain into the E.E.C. while others, notably Sweden and Switzerland, feel they should stay outside or, like Austria and Finland, feel they must.

Europe and the U.S.

All these ramifications create problems for the United States that are added to the more familiar one of the extension of the area of Europe in which American goods will be at a tariff disadvantage. To deal with some of them President Kennedy has asked for new powers over the tariff. Thus, progress in Europe has forced the United States to face trade policy problems that it has previously managed to push aside. The best course for the United States, if the President is given new powers, is not to follow the British course of joining the Common Market but to work with the enlarged European Community to reduce not only mutual trade barriers but those that harm the interests of the rest of the free world.

Europe's place in the world and Europe's internal problems were mainsprings of the movement for integration. Europe's achievement in making that movement real—even though it still has far to go—combines with the renewed strength of the European economy, to give European integration an increasing impact on the rest of the world.

William Diebold, Jr., has been at the Council on Foreign Relations since 1947, and has occasionally been a visiting lecturer at Columbia University. Previously, 1945–1947, he was with the Division of Commercial Policy, U.S. Department of State. He has also been research secretary of the Economic and Financial Group of the Council on Foreign Relations' War and Peace Studies Project. His books include *Trade and Payments in Western Europe* (1952) and *The Schuman Plan* (1959).

Discussing British membership in the European Common Market, this specialist writes that "Britain must seek entry because the most rapidly expanding market in the world for industrial goods is Europe. However, the removal of the tariff wall between Europe and the United Kingdom also means that Continental manufactures can invade the British home market. What Britain will get out of the Common Market arrangements will depend entirely on the quality of her response to the stimulus of the new conditions."

Britain and European Union

By WILLIAM WOODRUFF
Professor of Economic History, University of Melbourne

ON AUGUST 9, 1961, Britain gave notice of her desire to open negotiations for admission to the European Economic Community under Article 237 of the Treaty of Rome. In making this long-awaited decision to seek closer economic, and perhaps, ultimately, political union with the six members of the Community (comprising Belgium, France, Western Germany, Italy, Luxembourg and the Netherlands), Britain took what Prime Minister Macmillan frankly admitted was "one of the greatest decisions Britain has ever taken." It is one which carries with it considerable implications for Britain and Europe as well as for the rest of the world.

When on March 25, 1957, the Treaty of Rome was signed establishing the European Economic Community, sometimes known as "the Common Market" or "the Six," Britain did not become a member. In a White Paper[1] published at the time two major reasons were given for this decision: Commonwealth preferences, which are contrary to the E.E.C.'s proposed Common External Tariff, and the British system of agricultural support, which conflicted with a common agricultural policy. Britain also felt that the political "overtones" of the Treaty of Rome presented a threat to her sovereignty and her freedom of action. More importantly, Britain's mental outlook and political traditions were opposed to such an arrangement.

William Woodruff has had wide experience at universities in the English-speaking world. A graduate of Oxford, London, Nottingham, and Melbourne, he was awarded the English Houblon-Norman Fellowship in 1951; in 1952 he came to Harvard as a Fulbright Fellow; in 1953 he joined the Economics staff of the University of Illinois. In 1957 he resigned his professorship at Illinois to become head of the Department of Economic History at the University of Melbourne, Australia. His books include *The Rise of the British Rubber Industry* (1958), and (with L. McGregor) *The Suez Canal and the Australian Economy.*

The British have never taken easily or quickly to arrangements made by other European nations. Their nineteenth and twentieth century role has been to lead, not to follow, and much of the progressive liberalization of trade itself within Europe in recent years owes a great deal to British initiative and effort. The British no longer regard themselves as the most powerful people on earth but they are still the center of a great Commonwealth and the hub of a world-wide trading system. Moreover, it is not easy for them to think in European terms.

Because of these factors the differences separating Britain and members of the E.E.C. in their attitudes towards European economic and political union were not resolved, despite negotiations which continued throughout the whole of 1957 and 1958. In an attempt to protect their trading inter-

[1] Australia and the Common Market (Command 72), London.

ests and perhaps to negotiate with "the Six" later on from a position of strength, Britain and six other nations (Sweden, Norway, Denmark, Austria, Portugal and Switzerland) then formed the European Free Trade Association ("the Seven"). This association regulates their trade in manufactured goods, but leaves members free to adjust their tariffs against non-members and to maintain whatever agricultural policies they think fit. It has none of the political "overtone" of the E.E.C.

The hard economic and political facts underlying Britain's refusal to join the E.E.C. in 1957 have not changed. What has changed is the whole British attitude towards economic and political action with Europe. Opposition still comes from the Conservative party's right-wing, which stands for strengthening the ties with the Commonwealth, from the Labour party's left-wing (for reasons which are not altogether clear), and from the British farming community whose wish to maintain a strong, if highly subsidized, agricultural system is understandable. That there is still a wide difference of opinion in Britain towards the Common Market is only to be expected. Yet the changing shift of opinion in Britain in favor of joining the Common Market is growing daily.

Assisting this shift in public opinion is the undoubted economic success of Common Market countries. The causal relation between the establishment of the Common Market four years ago and the present rapid economic growth of its members is something that is too readily taken for granted, but there is plenty of evidence to back up the claims of those who speak for the E.E.C. In 1960, for instance, industrial production within the Community increased by over 13 per cent, whereas within the European Free Trade Association production increased by just over six per cent. In the same year the Gross National Product of the Community rose by nearly ten per cent compared with six per cent in the United Kingdom.

Since 1951, British exports, which are a matter of life and death to the British people, have increased at a much slower rate (30 per cent) than those of the E.E.C. countries (115 per cent). In ten years Britain's share of the world's export trade in manufactured goods has fallen from 26 per cent to 16 per cent. In these circumstances, membership in the Common Market offers Britain two advantages: greater export opportunities to a buoyant E.E.C. market of over 250 million people and, perhaps more importantly, the stimulus resulting from closer economic union with the industries and business houses of Continental Europe. The most telling argument for Great Britain is that the Common Market, about which so much doubt was felt several years ago, now exists and functions, and can no longer be ignored.

Britain's decision to seek membership in the E.E.C. is dictated not only by economic self-interest but also by the growing need for European political unity.

Federalism vs. Confederation

It is curious how political unity within Europe, which in 1957 caused Macmillan most apprehension, had by 1961 become Macmillan's chief argument for joining the Community. Britain's apparent inconsistency might be explained by the general ambiguity surrounding the form the political unity of Europe should take. What Britain feared most in the early days was not the Treaty itself, which is neither for nor against federalism, but the federal aims of certain groups of continental Europeans who were behind the Treaty. Britain cannot be a member of the E.E.C. and still have complete independence of action, but Macmillan's present attitude suggests that there is evidently greater room within the Community for political maneuver and compromise than was at first thought probable. In addition, the experience of the last four years has shown that rapid political federation in Europe is unlikely. Helped by the impulse given by French President Charles de Gaulle, interest has now shifted to a more loosely knit confederation of European nations, a concept which Britain finds much more acceptable and with which she is now willing to associate herself.

It does not require much political wisdom on the part of the British to realize that with the Common Market as a distinct and increasingly powerful economic and political organization in Europe the interests of British prestige are more likely to be served if Britain has a voice in formulating the policy of the E.E.C. than if Britain ignores it. Nor

does it require acute political judgement to realize that Britain cannot have a "special relationship" with the United States, to use the phrase introduced by Secretary of State Dean Rusk, and at the same time refuse to give positive support to the political unification of Europe, which the United States espouses, on the grounds of her association with the Commonwealth.

Dilemma of Entry

The British Prime Minister has recently referred to three leading problems: existing Commonwealth commitments, the position of British agriculture, and the future of the E.F.T.A. Aside from the question of Britain's association with the members of the E.F.T.A., the major problem to be settled concerns Britain's relations with the Commonwealth.

Britain's dilemma is how she can maintain Imperial Preference, begun at Ottawa in the early 1930's, and accept the provisions of the Treaty of Rome, which aims at a common import policy.[2] Unless Britain can retain some kind of preferential treatment for the Commonwealth the common tariff which will eventually surround the E.E.C. will place Commonwealth products at a considerable disadvantage compared with products from within the Common Market. The situation is serious for countries like New Zealand, whose farms now send 90 per cent of their meat and dairy produce to Britain,

The heart of the Commonwealth problem is not so much its need to retain its preferential position in British markets—this, of course, is vital for certain Commonwealth countries—but the protectionist nature of the proposed external tariff of the E.E.C. The fact is that Britain is unable to provide the growing market needed for Commonwealth primary produce and foodstuffs. The countries of the Commonwealth have been aware for some time of the changing structure of the British market and they have been active in strengthening their trade relations with other countries.

In these circumstances, the best service that Britain can render the Commonwealth is to ensure that the E.E.C. tariffs on foodstuffs (temperate foodstuffs are the greatest problem) and low-cost manufactures (which are likely to grow in importance as the industrialization of the underdeveloped parts of the Commonwealth increases) are kept as low as possible. The fact that Norway and Denmark have also asked for permission to enter the Community should make Britain's task easier. The Commonwealth will certainly not increase its sales of agricultural produce to Europe if every member of the E.E.C. continues to protect its domestic agriculture by high import duties. Yet the Community is as reluctant to see its protection of agriculture undermined by any concessions to the Commonwealth, as the Commonwealth countries are reluctant to discourage their own industries by associating themselves with the E.E.C.

The preferential treatment received by Britain in the Commonwealth presents no problem comparable to the need felt by the Commonwealth countries to find expanding markets for their agricultural products. The scale of preference is moderate and is likely to decline. Britain might even be prepared to give it up in order to arrive at a fair and satisfactory settlement with the Community. Commonwealth countries, today, it is true, take 42 per cent of Britain's exports while the Common Market takes only 14.5 per cent. But the trend of Britain's trade over the years 1954–1960 shows that exports to the United States increased during this period by 116 per cent, those to Common Market countries by 48 per cent, those to the Commonwealth by 14 per cent. Just as events are forcing the Commonwealth to seek additional markets outside Britain for their primary produce, so events are forcing Britain to find additional markets outside the Commonwealth for her manufactured goods. It is Britain's hope that free access to the Common Market will provide her with the trade opportunities she so badly needs. If a larger market can be found in Europe on terms satisfactory for Commonwealth products then both Britain's and the Commonwealth's needs will be met.

A Federal Union report,[3] *Britain and the Common Market—The Implications for*

[2] "Britain, Australia and the Common Market," (C. L. Wood Memorial Lecture) by Sir John Crawford, Melbourne, October 9, 1961. Also, "Commonwealth and Common Market," *The Banker* (London), August, 1961.

[3] Discussed in R. W. G. Mackay's *Towards a United States of Europe* (London), 1961.

Commonwealth Trade, concludes that seven-eighths of British imports from the Commonwealth provide no obstacle to Britain joining the Common Market. Indeed, the final outcome may confirm the opinion put forward by the London *Economist* in February, 1957, that the use of the Imperial Preference argument is mainly a red herring. Where Commonwealth interests will be seriously affected, special arrangements might be made to provide tariff-free quotas, a preferential structure for certain key items such as wheat, butter, meat and canned fruit, or commodity undertakings in which Europe and her major suppliers, inside the Commonwealth or not, reach agreement on minimum country quotas for imports into Britain and Europe. Some authorities[4] believe that the provisions of the fourth part of the Rome Treaty, which deal with the relations of Common Market countries with their associated overseas territories, would facilitate a solution of the Commonwealth problem. What the Commonwealth needs more than anything else is the lowest possible level of agricultural protection in Europe and sufficient time for readjustments.

As regards Britain's political links with the Commonwealth, it is unlikely that these will be immediately affected by Britain's entry into the Common Market. It is impossible to say what the political price of Britain's admission to the E.E.C. will prove to be in the long run. There are many people in the Commonwealth who feel that political unification in Europe will be achieved only at the risk of impairing Commonwealth political relations.[5]

The British Prime Minister was doing his best to allay these fears when he said:

> If a close relationship between the United Kingdom and the countries of the E.E.C. were to disrupt the long standing and historic ties between the United Kingdom and the other nations of the Commonwealth, the loss would be greater than the gain.

The Agricultural Problem

When in the nineteenth century Great Britain set her cap at the markets of the world she abandoned her system of agricultural protection and her farming community was subjected to the economic winds of world competition. The result was a small but highly efficient agricultural industry specializing in branches such as pasture farming which were most protected by distance from cheaper overseas supplies. Most continental countries refused to follow Britain's example. European agriculture continued to be protected through the tariff mechanism and through state intervention. For a period the intense specialization of the British economy was accompanied by enormous cumulative economic advantages and "free trade" in agricultural produce became a dogma. After the Second World War when Britain was faced with dollar shortages and insufficient foodstuffs there grew up a system of subsidizing farming incomes by direct grants made by the taxpayer.

The intention of the Rome Treaty is to create a Common Market for agricultural products organized along common instead of national lines. On January 14, 1962, the E.E.C. reached agreement on an agricultural policy effective July 1. Certainly, the end result will look little like a free market and how "common" it will be largely depends on definition. It is assumed that in time a complicated system of state regulations will replace the existing machinery. For some products in the Common Market prices will be set at "target" levels rather than at prices determined by market demand. These prices will largely determine the level of protection within the Community. In addition to the Common External Tariff, prices will be maintained by a system of variable duties, quotas and support-buying by governments or their agencies.

These proposals will probably affect Britain in the following ways. The subsidy system, where support to agriculture is largely provided by means of government deficiency payments covering the difference between average market prices and a previously decided minimum guaranteed price, will have to be abolished.

It will no longer be necessary for the Government to increase its subsidy to offset price falls caused by the dumping in Britain of the world's agricultural surpluses. The British farmer, like his continental counterpart, will

[4] "Towards a European Solution," Baron Snoy et d'Oppuers, *Lloyds Bank Review* (London), July, 1960.
[5] "Australia and the Common Market" (Command 71), Canberra, August 16, 1961.

undoubtedly go on receiving support from the rest of the community, but in Britain's case the support will come from the consumer in the prices he pays for his food, not from the taxpayer.

Under the Common Market system British farmers will have to compete with European farmers and producers, but this should have a stimulating rather than a damaging effect. Most British farm commodities entering inter-European trade are produced at lower cost than elsewhere in Europe. Holland and Denmark are exceptions. And the British farmer has on his side the benefits arising from the economies of scale. Sixty per cent of all farms in the Common Market have less than 12 acres of land, and only one farm in seven is over 50 acres in extent. In the United Kingdom 36 per cent of holdings are over 50 acres and these account for 86 per cent of land under cultivation, compared with less than 50 per cent in the E.E.C.

British agriculture is also much more mechanized than that of most E.E.C. countries, and if Britain joins the Common Market and the 10 per cent duty on machinery from the Continent is abolished, the British farmer might be able to obtain his equipment at lower cost. Despite the competitive strength of the British industry some shifts in production must take place, for instance, from grains and milk to beef, and some branches of the horticultural industry may be obliged to contract. So far as costs and prices are concerned the British farmer does not have a great deal to fear from Continental competition. But this does not allay the fears expressed in the overseas Commonwealth that the effects of a common agricultural policy in Europe will increase production of agricultural produce, raise the levels of agricultural protection and add to the Commonwealth problems.

As regards the effect of a common agricultural policy upon the British consumer, the proposed E.E.C. system will mean that the consumer, not the taxpayer, will pay the cost of farm support directly through the price of food. There has been much discussion of this aspect in Britain, the estimates in the cost of living rise varying from one to three per cent. Against this rise in the cost of living it is expected that there will be a saving to the taxpayer (who is also, of course, a consumer) of at least £150 million in agricultural subsidies.

Effects of E.E.C. Entry

The formation of a United States of Europe with the largest internal free trade market in the world offers to all who join it enormous opportunities and a tremendous challenge. Britain must seek entry because the most rapidly expanding market in the world for industrial goods is Europe. However, the removal of the tariff wall between Europe and the United Kingdom also means that continental manufactures can invade the British home market. What Britain will get out of the Common Market arrangement will depend entirely on the quality of her response to the stimulus of the new conditions. Economically speaking, the greatest thing that Britain could get out of the so-called "bracing arena" of the Common Market is a re-awakening and revitalizing of British industry, adaptability, enterprise, thrift and business talent.

It is both wrong and dangerous to think that Britain's membership in the Common Market will bring about a magical change to the British economy, any more than it is responsible for a magical change in the economies of the E.E.C. countries.[6] A comparison of the growth of the Gross National Products of countries which later formed the E.E.C. and that of the United Kingdom shows that it is not only since the Common Market was formed but throughout the 1950's that the Continental countries have recorded a faster growth rate than the United Kingdom. Similarly, the rapid growth of trade between the E.E.C. countries in 1959–1960 sprang more perhaps from a normal cyclical upswing of trade than from the forming of the Common Market. Likewise, the considerable fixed capital expenditures of E.E.C. countries between 1959–1960 were almost equalled by similar rises in investment at the same time in Britain, Sweden and Austria—a movement that can hardly be attributed to the stimulating influence of the Common Market.

Again, much has been made of the favourable external position of E.E.C. countries. But the combined current external balances

[6] "Europe's Progress: Due to Common Market?" Alexander Lamfullassy, *Lloyds Bank Review* (London), October, 1961.

of those countries which eventually formed the E.E.C. have shown a surplus every year since 1951. It is probable that the explanation of the economic performance of Common Market countries, in comparison with Britain, lies more in the wider scope for industrialization and economic growth of these countries after the Second World War, rather than in institutional changes in European trade such as the formation of the Common Market.

The E.E.C. countries have been able to achieve a faster rate of economic growth and an improvement in their competitive position relative to the United Kingdom for reasons relevant to each country, i.e., population, wage levels, labor costs per unit of output, exports, costs, enterprise, cyclical development and so forth. Only if Britain's joining the Common Market results in an improvement in these factors can Britain expect substantial improvements in its flow of trade and its economic growth rates in the years ahead. This is an entirely different thing from saying that the autonomous stimulus to growth is membership in the Common Market. Yet as long as the present boom conditions prevail in Europe and good external balances are maintained, the Common Market will quite wrongly continue to be regarded as the source of this increased wealth and activity.

Conclusions

1. It is difficult to see how Britain can avoid joining the Common Market. Foreign trade is her life blood. The Common Market offers her the opportunity to expand her trade and the stimulus of competition to improve the levels of performance of her industry and commerce.

2. If she joins she stands to gain from the stimulus of European competition, and from obtaining the best terms in what is at present the most dynamic market in the world for the products Britain is trying to sell. She stands to lose by failing to respond to the new stimulus, and by losing European markets (including those of the United Kingdom) instead of adding to them. The balance of advantage will depend largely upon herself. If she is forced to give up Imperial Preference which could worsen her trade position in the Commonwealth, and at the same time fails to achieve a considerable net increase in her exports to the Common Market, the result will be further pressure on her balance of payments and greater economic strife.

3. If Britain now appears to be moving closer to Europe than to the Commonwealth it is because the British believe it is in their future economic interests to do so. The overseas territories of the Commonwealth are no longer as complementary to the British economy as they were in the past. Britain's dilemma is that she cannot afford to accept the one and deny the other. Political and historical ties forbid it. Her dependence upon Commonwealth supplies and her need of Commonwealth and European markets make any such choice impossible. Britain must remain a member of both the European and the Commonwealth group.

4. The continuance of Imperial Preference is vital to the present well-being of parts of the British Commonwealth, if not to Great Britain. While the role of Imperial Preference in world trade has been exaggerated the price of Britain's admission to the E.E.C. must not be paid by sacrificing Commonwealth economic interests. A strong Commonwealth, some would argue, is as vital to European economic and political unity as a strong Britain. The E.E.C. must recognize this fact and be prepared to make provisional and temporary arrangements to safeguard Commonwealth interests.

5. It is possible that the political unity and the economic strength of Free Europe will be improved by Britain's accession to the E.E.C. Those who press for unity stress the fact that much of Europe and the world is divided into two camps where the necessity to coordinate the economic and military policies of those who stand together is urgent and imperative. But they do a disservice by crediting the Common Market organization with a degree of economic success for which it is not responsible. The economic recovery of Europe is a cause of the Common Market not the result.

6. The proper setting for a discussion of Britain's relation to the Common Market is a world setting. These are world problems. They will be greatly affected by the future trade policies of other nations, especially by that of the United States of America.

Describing French prosperity, this author notes that "while most complain, for Frenchmen always have, and many have cause to do so, the asperity of injustice for some has been mellowed by provision of plenty for more: there is work for the taking; the good things of life are more readily available, and to more people, than ever before." A prosperous France is an effective partner in the Common Market.

France on the Move

By Eugen Weber

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Anyone returning to France after a few years' absence is struck at once by the obvious signs of prosperity and bustling, self-confident activity. Houses are going up everywhere; transport material is new; once-grimy buildings have been cleaned or painted; shabby shop-fronts and unassuming bars are breaking out in a rash of marble, chromium and neon lights; the traffic problem is as bad in Paris as in New York and may soon be worse. A friend might still remember to sneer anachronistically at American materialism, but he will be showing off the new refrigerator, boasting about the superior quality of French television, and desperately driving round in circles, looking for a place to park. The French have always been inclined to talk as if each of them individually had produced the tragedies of Racine and the comedies of Molière; now they remember that, not so long ago, they built the Eiffel tower too.

The outward signs of confidence and prosperity are not deceptive. Between 1951 and 1961 gross national product will have grown 50 per cent, that is on an average of 4.1 per cent per year.[1] But the real jump forward is of more recent date: 1953–1957. These were the years when political instability and running inflation hid from sight great advances in power production and the modernization of key industries like transport, steel, chemicals, automobiles and electronics. In 1958, the Fifth Republic inherited an economy whose dynamism, ignored by a public fascinated by political hassles, surprised everybody. The task of de Gaulle's Republic, so readily accepted by a majority of Frenchmen, was to secure the stable conditions in which an ever-growing section of the population could concentrate on the exhausting but increasingly satisfying pursuit of money.

There is no understanding the sustained support which the General has received, in spite of an anachronistic foreign policy and despite his failure to solve the Algerian problem, no explanation for the grumbly quietude of the trade unions, without looking at the country's booming condition. Of course, prosperity does not mean that everyone is

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[1] This helps explain the much-criticized insistence of the government that wage raises should not exceed 4 per cent per year; it merely seeks to see that wages keep pace with the rise of productivity which was 4.2 per cent per man-hour in 1960 for the whole French economy and has oscillated around that figure, give or take a few decimal points. ever since 1949. If wage-raises exceeded the rise of the wage-earner's productivity, then production costs would be affected and, with them, all possibilities of commercial expansion. Until this happens, the constant rise in prices (though it makes life expensive for tourists) is not a threat to the nation's economy or to peoples'. standard of living. We should remember that foreigners find the United States very expensive; Americans presumably have the wages which enable them to face American prices.

rich: hundreds of thousands still live in overcrowded quarters and walk the razor's edge between subsistence and misery; tens of thousands more lead an existence whose meager economic rewards are not enhanced by the harassment and brutality inherent in a war that is also a civil war. But while most complain, for Frenchmen always have, and many have cause to do so, the asperity of injustice for some has been mellowed by provision of plenty for more: there is work for the taking; the good things of life are more readily available, and to more people, than ever before. The worker in industry may still vote Communist (he is conservative, after all!); but he enjoys his refrigerator and his radio (1 for every 3.7 persons—more than in Russia), perhaps a television set (1 to every 30-odd), and may even by planning to buy a little car. There is 1 car to every 9 inhabitants in France, compared to 1 to 10 in Britain, 1 to 16 in Germany . . . or 1 to 3 in the United States.

More important still, the worker is more likely to enjoy these things while living in decent quarters. In 1954, France was building seven dwellings for every thousand inhabitants: its productivity in the field made it one of the slowest European states, after Italy, Belgium, Holland, Britain and West Germany. By 1960, only the Federal Republic was still ahead of a country building about 320,000 homes a year. When one compares this with the almost total stagnation that the building industry had known between the two great wars, or even with the 70,000 dwellings finished in 1950, the improvement is obvious.

Here, however, we come to the crux of French difficulties, both apparent and real: an expanding economy and an expanding population create their own problems which are, in one way or another, problems of inflation. In the ten years following the war, the French population increased about ten per cent, by over four million; and the trend continues. To cope with the mere natural growth of the population would call for 150,000 new homes every year, if every existing family were already housed. Yet 53 per cent of French families are still ill-lodged today: 200,000 people a year move from the provinces to Paris; 100,000 peasants leave the land for urban quarters; hundreds of thousands from overseas prepare to return home; the industrialization of hitherto undeveloped provincial areas creates a vast new demand in country towns quite unprepared to meet it. Meanwhile, the economic improvement of working-class families, their increased purchasing power taken over all *in spite* of the constant rise in prices, is reflected in a democratization of comfort, a new demand for better living conditions, which the worker considers his due and is in a position to pay for.

In other words, France's economic and political problems are not those of a poor economy, but those which arise when opportunity beckons to people who never glimpsed it before. Some get trampled in the crush, some complain because they have been left behind, and others revolt if an attempt is made to regulate the unruly struggle.

Taken all in all, however, the economy is healthy. Between 1959 and 1960, the volume of gross national product rose by 6.3 per cent and, while in 1961 the rate of progress will have been less, the average of 5 per cent remains respectable. If it is not better, this may be caused by the stagnation of public investments, due partly to the needs of the Algerian war and partly to a "liberal" philosophy which relies on private capital to prime the pump of productivity. Since private capital looks for investments that pay, certain needs are bound to remain unfulfilled, or to be satisfied more slowly, even when "demand" of the conventional kind is temporarily satisfied and the customer pauses, like a replete python, to digest one batch of purchases before wanting more. This is the reason why, even though the automobile industry has cut back production and the chemical industry has ceased to expand, the country still lacks cheap housing, and schools and, indeed, teachers.

Schools and housing are traditional subjects for left-wing complaint and seem to have little place in an economic discussion. Their significance, especially that of educational machinery, is crucial in this instance because an expanding modern economy, if it is to keep expanding, needs skilled men, engineers, technicians, managers—what the French call *cadres*. France is already short of *cadres* for her present needs.

But things will be getting worse: 700,000

new workers will come on the market between 1965 and 1970; 1,300,000 between 1970 and 1975. In the meantime, the rural exodus is growing: while planners expect about 70,000 migrants a year, 105,000 people left the land in 1958 alone. It is safe to expect that 500,000–800,000 active persons will give up agriculture for some urban employment between 1960 and 1970.

These people are simply raw material: jobs must be found for them, possibilities of employment created, *men must be trained.* There is not only migration from agriculture to industry, but migration from those industries which require less skill in the ordinary workman (mining, textiles, leather) to the more advanced sectors (chemicals, electronics). Within every branch of industry (including agriculture) the level of technological knowledge required is higher and the skill becomes more complex. This means that education and training are more important at one end, and the rewards expected by the better educated, more highly skilled worker are getting greater at the other end. Official niggardliness in sponsoring educational expansion, housing projects and sheer research bodes ill for the future. Already, French scientific research and the industries most dependent on it (e.g., atomic physics) face serious shortages of trained men. So do the schools. At the rate men are being trained today, the problem can only get worse. In turn this will affect the development of national production which needs skill, ideas, inventions and perfections to compete with its partners of the Common Market, and even more with giants like Russia and the United States, whose educational machinery is geared to the needs of mass production.

France's agricultural problems are themselves a part of this vaster situation: the peasant has been caught of late in a moral and technical crisis. In order to improve production, he has been urged to modernize, concentrate and mechanize. His present difficulties do not stem from failure to do so, but from following the good advice. The most enterprising farmers have invested in tractors, in chemical manure and other newfangled notions; but the income from the increased crops, far from enabling them to pay back the loans they raised to modernize and thereafter to prosper, stops at some point between consumer and producer. Profit seems to rest in the rapacious and grasping paws of middlemen whose chief function of late has been to prevent effective distribution, to organize artificial shortages whenever supply looked as if it would meet demand, and to discourage effective government intervention or reform.

The middlemen's lobby is so powerful that government intervention is limited to reluctant raises of production prices which are supported to give the peasant producer a bit more. In effect, such measures put most of *the gain in the pockets of the big producers* and cause further rises in the market price which will in due course be felt by the small producers when they have to pay more for services and consumers' goods. They would have benefited more from efforts to rationalize distributive and marketing procedures; to eliminate some of the middlemen who raise the price of vegetables, fruit or meat by hundreds of per cents; to establish experimental, training and advisory services, now sadly lacking.

The peasant leaders do not fight for higher prices, but for better training and advice at one end, for improved means of distribution at the other. They know that profits would follow such reforms. Meanwhile, the profits of higher prices granted by a government unwilling to rock the boat too hard when the going is rough already go into the pockets of the biggest, most efficient producers, while the small farmer is driven to the wall—migration or revolt.

Surpluses and the Common Market

This, of course, need not affect production; and, indeed, the rate of French agricultural production is increasing. While prices never seem to reflect this, the farmer's problem today is one of surpluses which he can only hope to dispose of through increased exports. Exports where? Canada, the United States, and other countries have surpluses of their own which they can sell more cheaply. The only possible answer to the question is to be found in France's European neighbors in the Common Market, if these can be persuaded to accept an exchange structure in which the agricultural products of the Six receive preference over those from outside the Community.

Though this has not been apparent either in public statements or in effective activity, agricultural integration is or should be France's paramount concern in the European Economic Community. With 26 per cent of the active population of the Six, France has 50 per cent of the useful agricultural surface: she can produce more and sell more cheaply than her partners. Naturally, her farmers want the same chance that her industrialists are getting.

But the other members of the Common Market all have arrangements this would be likely to upset. The situation that prevails is one where agricultural products—especially cereals and meat—are imported cheap from overseas, while a small number of native farmers are kept going by artificially high prices fixed by the government. An integrated market, with foreign imports gradually squeezed out by internal preference (which the French demand), presents serious inconveniences to France's partners. Such a plan could be especially hard on German farmers who have higher production costs, and it would prevent the German government from maintaining the present balance between high internal prices and the low cost of imports. To this objection (recently camouflaged behind sanitary complaints), the French reply that Germany cannot enjoy the rise in industrial exports to her partners while refusing to accept their agricultural products. After a great deal of argument, it now looks as if a plan will go into effect which, over the next six years, should create a common market for foodstuffs, standardize prices throughout the Community, and maintain preference in favor of members—that is, of France.

French farmers realize that the mere existence of the Common Market has inspired government and professional organizations to work out a more dynamic agricultural policy, technically more progressive, socially more advanced; and that even German obstructionism over imported French beef has led to improvements like the recent campaign which has practically stamped out hoof-and-mouth disease. But they have an uneasy feeling that a Community dominated (in France and elsewhere) by free trade-minded industrial and commerical interests will be inclined to sell agriculture short. And, in effect, there is a contradiction between industrial interests which look forward to free competition even beyond the Community's bounds, and the farmers who fear it because they could not meet the challenge of great non-European producers.

Nor can we tell what would happen if, Britain having joined, members of the British Commonwealth—perhaps the very competitors French farmers fear—may apply for admission as associate members. We do not know what difference the possible admission of Ireland and Denmark will have on the agricultural market of the Community. But rival producers and rival local interests exist in the United States as well, and if men are in favor of economic union it is in part because they hope to benefit from the broader competition as well as the broader opportunities that come of it.

In the meantime, despite the difficulties of agricultural integration and the inevitable problems coming in the wake of the rapid and revolutionary changes of the last few years, the Common Market is a success, and specifically a success from the French point of view. In 1958, French trade with her partners of the Common Market was 32.5 per cent of her total foreign trade. Today, it is over 40 per cent. In two years (1959 and 1960), French imports from her five partners have increased by 50 per cent, her exports to them have increased by 79 per cent.

What is equally interesting is that, while French sales in the franc zone have been going down despite vast and wasteful equipment credits to newly-independent African countries, sales to other foreign areas have been rising. The lastest available balance sheet of the French economy[2] shows sales in the franc zone down seven per cent, while sales to other countries have increased by eight per cent. The increase in trade with Common Market countries was 18 per cent over the same period of 1960. Most important of all, we find that Algeria is no longer France's most important client. Her place has been taken by Germany, whose purchases from France have increased 30 per cent over the last year alone.

This information may help to explain France's growing inclination to rid herself of an unprofitable African appendage; it

[2] *Perspectives*, Supplement to no. 765, September 30, 1961.

certainly provides a solid basis for Franco-German cooperation. Certainly, French and German businessmen tend to think of the two economies as complementary,[3] and competition from the more highly developed German economy has merely helped keep the French on their toes. Radios, refrigerators, office equipment are all cheaper and better than they were a few years ago. The removal of protection, the challenge of foreign goods in French shops that are no longer inaccessible because of exorbitant import duties, have forced the French to great efforts in the fields of technology and commercial expansion. They had to rationalize production, they had to go out and sell: some marginal firms (textiles, electrical equipment) went to the wall, but those which survived have made spectacular progress. Everyone is the better for it.

The new-found confidence is reflected in the fact that whereas after the liberation French business feared and suspected foreign (especially American) "colonization," these fears have disappeared in the last few years. An inverse reaction now sends the French competing for foreign capital against their neighbors, and especially against Germany and Holland. In 1960, while the Federal Republic still received more than half of United States capital invested in the E.E.C. (European Economic Community), France came next with 20 per cent, ahead of Benelux with 16 per cent and Italy with nine per cent.

Paradoxically enough, when one compares France and Germany in the context of the E.E.C., the former seems to have more trumps in her hand. We know by now how essential a part in economic success is played by the available labor force and the consumer market furnished by a large, active, and growing population. Germany's economic recovery after 1948 can be attributed in good part to the influx of immigrants from the East. The French economic revival, too, is not unconnected with the increasing birthrate following the war. For the moment, its results have been felt less in productivity (children born after 1946 have not entered the labor market), than in demand. France's present problem is lack of manpower. But one can expect this to be remedied gradually as the post-war generations grow up, and the conscripts come home from Algeria.

Germany, on the contrary, is on the eve of a critical situation. The Federal Republic is still heavily populated, but its natality has dropped to the point where replacement of the aging generations is no longer assured. It would already know a population crisis if it had not received in the last ten years 11 million Germans from Eastern Europe and three million fleeing from East Germany's Communist paradise. But this influx merely puts off the demographic crisis: it has increased West Germany's population without making it younger. France, on the contrary, is proportionately much younger than her neighbor. As the years go on, the national income will be saddled with an ever smaller proportion of the unproductive aged. And then, who says youth, says dynamism. So France can trust herself to cooperate in the E.E.C. without fear of German domination. And, now that Britain is preparing to join, her partners can trust themselves in *her* company without fear of French hegemony.

Political Integration of Europe

One would expect such considerations to be the prelude to a rapid political as well as economic integration of Europe, where the two great powers grow ever more dependent on each other, and their smaller partners feel less afraid of them. And it is no coincidence that, on July 16, 1961, the summit conference of the Six resolved to develop political cooperation with a view to eventual European union. That this has not gone farther or faster is due to the strong prejudice of General de Gaulle and of de Gaulle's government against any kind of political integration.

The story of the Common Market and the E.E.C. is that of the tension between "nationalists" such as de Gaulle and Debré, and the "Europeans" responsible for the progress achieved so far. The Europeans—many of them French, like Robert Schuman and Jean Monnet—would like to press the present development towards a logical

[3] Rather too much so sometimes for some of their partners' taste. In March, 1961, the monthly bulletin of the Dutch *Vereiniging van Metaalindustrieen* revealed an arrangement between the French and German steel industries according to which if a great foreign contract (e.g., to install a complete factory or gasworks, say in Egypt, or Peru) were won by one country's industry, up to 40 per cent of it should be allotted to the other.

conclusion in an association of States under a supranational authority. The French government will have none of this. It considers such schemes to be both anti-national and anti-historical, hence utopian, having no chance of being realized in the foreseeable future. It supports the idea of a confederation, on lines tighter and more active than those of the British Commonwealth, whose members would hold regular and frequent meetings in which they would lay down the lines of a common policy concerning world problems and common dangers.

The difference between the two ideas is great, but less than some people think. At bottom, the supporters of both formulas agree that the Six must cease to act separately and learn to work in unity and coherence. And, since agreement on a minimum program is better than no agreement at all, the Six have agreed to follow a line very similar to that advocated by the French. Yet, while Prime Minister Michel Debré expresses his belief that European unity is far, far away, only 27 per cent of the Frenchmen questioned by the French Institute of Public Opinion less than a year ago agree with him, while 49 per cent consider European union in 1966 a serious possibility.

Conclusion

It is foolish to think that the political structure of Europe can be separated from her economics, as Debré seems to think. You cannot have a mass economy without support of the public powers, and you cannot have economic integration without ever greater political integration. A simple alliance of sovereign powers cannot lead to the continental union which alone can hope to rival the vast economic possibilities of Russians, Chinese and Americans. The French government is stuck in an anachronistic position based on its insistence that France *alone* still means something. So does Finland. It is because she is *not* alone that France still means something more.

The efficacy of the European treaties rests in the fact that their application seems irreversible. Insofar as de Gaulle tries to brake the progress, he is going against the lessons of past successes which have seen the triumph of imagination over stick-in-the-mud reticence. The French government wants to divorce politics and economics. A high school student could explain that this is silly. The (technical) Schuman Plan had a political intention and produced political effects: a radical change in Franco-German relations. The Common Market was launched because after the (political) failure of the scheme for a European Defense Community France could not say no to yet another scheme; and when Common Market projects were ready in 1956, it was political events—Suez, Budapest—which secured public support of the new economic departure.

Political pressures, awareness of political realities, have speeded the economic integration of countries quite separate a few years ago. It is only logical that the next step should carry the economic community onto the political plane, first with a common foreign policy, then with common defense arrangements whose costs would lead in turn to common budgetary and financial policies.

Given time, whatever French government is in power must be carried towards further integration on the political as well as the economic level. The country's political vagaries need make little difference to its eventual orientation. In the early days of the Fourth Republic, the walls of Paris were plastered with the prophetic posters of a paint-firm. They showed four cheerful images of *Marianne,* each smaller than the one before, each marked I, II, III, IV, marching one after the other while, in the wings, a fifth and smaller version of the same cheerfully awaited her turn. The legend read: "Republics pass. *Gloop's* paints remain." The remark is still true. Given the forces, human and material, astir today, given the possibilities of the Common Market, capital will find and grasp its opportunities, whatever the regime in power.

"The youngest independent state in Europe is Iceland, which severed its ties with Denmark in 1944."—*From a Twentieth Century Fund Study.*

Discussing West Germany's economic role in the process of West European integration, this author poses the crucial question, i.e., ". . . what would happen should West Germany one day have to choose between the two conflicting alternatives: to continue in her association with Western Europe or to achieve her national reunification. . . . West German people would have then to re-examine the old European value system of civil loyalties, established in the hey-days of national states, before they decide whether to follow the voice of reason and stay with the West, or whether to give up this association in order to satisfy the emotional pull of their hearts."

Key to Europe: West Germany

By Vaclav E. Mares

Associate Professor of Economics, Pennsylvania State University

The city of Aachen—formerly better known as Aix-la-Chapelle—has several indisputable claims to being "the first" among all German cities. With its two A's it holds firmly the first place in any alphabetic roster of German cities; due to its border location on the main highway and railroad connecting the Channel coast with the Ruhr and with the Rhineland, it usually is the first German city reached by travellers coming from the west; finally, due to its historical association with Charlemagne and the Carolingian era, it can justly claim the title of the first Western European capital. Thus both for the convenience of its geographic location and for historical reasons, Aachen is a fitting starting point for a field study of West Germany and of her role in the present unification of Western Europe.

Vaclav E. Mares, native of Czechoslovakia, worked with the coal, steel, and cement industries in Central Europe and came after the war to the United States on a diplomatic mission for his native country. He resigned later from government service, became an American citizen, and joined the faculty of the Pennsylvania State University where he teaches in the fields of industrial and international economics. In 1961 he spent his sabbatical leave in Europe where he studied the regional development policies in the Common Market countries and in Yugoslavia.

In spite of its heavy war destruction, Aachen has retained some monumental relics of its ancient history which invite the visitor to some retrospective thinking about the erratic fortunes of the idea of European unity throughout the centuries. Next to Charlemagne's sarcophagus in the famous Octagon of the oldest German cathedral (in which 32 of the rulers of the Holy Roman Empire were crowned), one is temped to reflect about the forces that pulled Europe together or apart in the Middle Ages and in the New Era. When one compares the Carolingian and the present unification process which are separated by a time lapse of 1200 years, two analogies strike the eye even of a hurried observer. Both of these processes started to take a definite shape with an historical act performed in Rome: in 800 A.D. it was Charlemagne's imperial coronation by the Pope; in 1957 it was the signing of the Treaty of Rome. Moreover, both developments materialized at a time when great military powers of alien civilizations were encroaching on and threatening the positions held for centuries by Rome or by the Christian Western world. What the Arabs' expansion accomplished at the turn of the eighth[1] century, the Soviets' expansion

[1] Henri Pirenne, *Mohammed and Charlemagne* (English translation published by Barnes and Noble, New York, 1955).

accomplished in the middle of the twentieth century.

"Das Wirtschaftswunderland"

A visitor who proceeds on his exploratory tour to the industrial heartlands and trade centers of modern Germany after a retrospective stop-over in Aachen, finds everywhere the same symptoms of bustling prosperity which have been the characteristics of the German scene for the whole last decade. Plentiful selections of consumer goods on the overburdened counters of the department stores, multiplication of transport vehicles on the highways and of critical traffic bottlenecks in the cities, groups of commuting foreign workers in railroad stations and bus terminals, complaints about the "hoarding" of people (not releasing them in times of seasonal downswings out of fear of not getting them back later), references made frequently by salesmen and production engineers to long lists of unfilled orders—all these and other similar signs offer to the visitor convincing evidence of the high prosperity of the German economy. The same symptoms can be found even in the great shipyard region of Hamburg and Bremen, although everywhere else in Europe shipbuilding is lagging behind the rest of the economy and its centers are today the few pockets of major unemployment in the Old World.

West Germany's gross national product,[2] adjusted for the price rise, showed in the 1950's an average annual increase of 7.5 per cent; and continued to grow by 8 per cent in 1960 and by 6 per cent in 1961. At the same time, West Germany maintained for the whole decade her gross capital formation at the rate of between 23 and 25 per cent of her own G.N.P. (against an average rate of about 17 per cent for the rest of Europe, except for Italy and the Netherlands whose proportional rates of investments were closer to the German level).

Since 1953 the consumer price index has climbed by 15 per cent. The average earnings of industrial workers and the aggregate figures of disposable income, during the same eight years, rose much faster than that. When deflated for the price increase, the real average earnings of German industrial workers rose by 55 per cent and the per capita disposable income by 75 per cent. These are the cash benefits for the German workers and average citizens from the decade of continued prosperity. Unemployment has practically disappeared.

Spectacular also were the German achievements in the increases of labor productivity. The average productivity of industrial workers climbed in the 1953–1961 period by 60 per cent. Considerable increases of productivity (in the range of 25 per cent within three years) have also been reported recently for farm labor and for coal miners—the two sectors of the economy from which the manufacturing sector can still hope to draw some badly needed help in labor. The two developments—increase of the labor force by 30 per cent and increase of industrial labor productivity by 60 per cent—share, consequently, the credit for the near doubling of the West German industrial output in the 1953–1961 period.

Certain business research economists whom this writer interviewed last year in Germany spoke of a decline of incoming orders and of a forthcoming leveling-off of the boom. Order backlogs, accumulated since 1959, did not make obvious any leveling-off of the production figures in 1961; however, a closer look at some of the sensitive statistical indicators seems to confirm the above mentioned predictions. Thus, for example, West German steel statistics for 1961 showed a steady flow of monthly shipments of rolled products, yet a decline of 10 per cent in the ingot output and a decline of 40 per cent in the inflow of new orders of rolled products. Also the West German shipyards, which depend for 75 per cent of their employment on exports, reported recently a sharp decline in incoming orders caused mainly by the Japanese competition in the construction of tankers. While the consumer demand for durable goods is still on the upswing, the volume of domestic investments and of export orders in general declined (the last one induced by the revaluation of German currency in March, 1961)

[2] The following references to the performance of the West German economy are based on statistics published regularly by:
Monatsberichte der Deutschen Bundesbank, Frankfurt am Main
Wirtschft und Statistik, Statistiches Bundesamt, Wiesbaden
OECD Statistical Bulletin, Paris
UN Monthly Bulletin of Statistics, New York
European Economic Community, Quarterly Survey, Brussels

and produced this development which, in 1962, will probably appear more like a return to normal than as a cyclical downswing.

What Produced the "German Miracle"?

Among the factors that created the setting in which the West German economy, in the last decade, operated so successfully, one stands out which, paradoxically, was marked as Germany's national disaster—her political partition. The constituent parts of the newly formed Federal German Republic—the *Länder*—proved to be much better integrated among themselves than ever was the western part of the old Reich with its less economically advanced eastern part. The Catholic and Christian Democratic majority of the new Federal Republic felt safer in the saddle and ruled, consequently, more consistently than it could have ruled if it had to compromise with, or oppose, the Protestant and Social Democratic majority of the eastern provinces of the old Reich.

The Federal Republic inherited also from the old Reich the better part of its industrial resources and equipment, especially in the capital goods' production sector. After the monetary reform of 1948, the government of the Federal Republic scrapped most of the restrictive controls, restored freedom of action to industrial enterprises and, in general, adopted very liberal economic policies. With the help of coinciding developments outside Germany which mostly played into their hands, the men in Bonn soon earned the title of "the architects of the new German prosperity."

Some of the protagonists of the old school of economists tried to make out of the "German miracle" a test case against all those who "had been reared on doctrines of Marx and Keynes" and who had been "misled and confused by them."[3] It smacks of ideological determinism if one tries by this example to prove the general applicability of the free market doctrine. The German experiment could have never been undertaken if the climate for it had not been preconditioned by substantial American assistance and if the Government in Bonn had not operated in a closed circuit hook-up with American authorities which, because of the ideological contest with the Soviets for the world's public opinion, could not afford to let the experiment fail. Thus the outside conditions, under which the experiment was carried out, were as closely controlled as only laboratory experiments can usually be. These conditions are unlikely to be duplicated elsewhere. This fact substantially reduces the value of the experiment as a lesson in the application of free market doctrines to normal situations.

These are the most important outside factors that preconditioned the climate for the experiment and, while it was under way, assured its success:

1. No losses of capital equipment caused by the stripping of industrial plants in the name of reparations in kind, as happened under the Russian occupation in their zone of Germany.
2. During the five years of the Marshall Plan, transfusions of American funds into the bloodstream of the West German economy amounting each year to about one tenth of the value of West German gross national product.
3. For more than a decade, no need to allocate German public funds for military expenditures.
4. Obliging support of the American authorities for every governmental action defending status quo in private enterprise, whether the issue was the request of workers' councils to get a voice in management of plants (which was, of course, denied), or whether it was the return of an industrial empire to its "legitimate" owner, the Krupp family (which was, of course, granted).
5. From the Soviet side, an unintended help in the supply of labor, first, by the transfer of some 11 million expellees and, second, by the continuous stream of refugees which, until last August, every year multiplied several times the natural increase of the West German labor force.
6. From the American side, even when the assistance program ended, continuous inflow of funds, partly in the form of private investments, partly in the form of offshore purchasing procurements of U. S. military forces in Germany.
7. Last, but not least, the agreement among France, Italy, West Germany, the

[3] See in particular Wilhelm Röpke, *A Humane Economy* (English translation published by Henry Regnery Co., Chicago, Ill., 1960).

Netherlands, Belgium and Luxembourg about the establisment of the three European Communities.

All these factors and developments contributed to the West German *Wirtschaftswunder*. The able men in Bonn deserve the credit mainly for their knowledge of strategy (which is an old and well tested German quality) and for their knowledge of diplomacy (in which the Germans had not excelled heretofore) by which they understood how to secure from all these developments the maximum advantage for their economy.

It is worthwhile to note that, in one respect, the Federal Republic's government deviated radically from the free market philosophy of the old school. While it liberated the processes of the production and of the distribution of goods, it never gave up its right to a close control of the distribution of income. The following figures for the year 1960 show to what an extent the Government in Bonn still uses this right:

	Billion of DM
Gross wages and salaries in the Federal Republic (except Berlin) amounted in that year to	118.7
Deductions were	18.8
Net wages and salaries were	99.9
Officials' net pensions were	5.7
Other public transfer payments were	28.3
Disposable income was	134.0

Rather than as an expression of some welfare philosophies, this massive redistribution of income developed after the war out of an imperative emergency action. It had to protect from direct starvation those large groups of people who became victims of bombings, of population transfers, or of the inflation. In 1952, the *Lastenausgleichsgesetz* (the law of balancing the burdens of war) further increased the scope of income redistribution. In cases justified by the philosophy of the law, it granted to the government the right to interfere in private property which far surpassed any aims of a welfare state.[4] All these measures—the largest of their kind among all modern nations when expressed as shares of their respective GNP's—helped to assure in the Federal Republic the widespread effect of the gains from ever rising prosperity.

One more comment is in place with regard to the above figures. Unlike the situation in the United States, the item "Deductions" represents only a smaller part of the personal German tax burden. The total revenue of West Germany's Federal and *Länder* (provincial) governments consisted of:

	Billion of DM
Income taxes (wage, entrepreneurs, corporations)	24.4
Property tax	1.1
Turnover tax	16.1
Motor vehicle tax	1.5
Excise and customs duties	11.8
Equalization of burdens levies	2.0
Thus total revenue from taxes, duties and levies	56.9

Only the comparison of this total figure of 56.9 billion of DM with that of 134.0 billion of DM as given above for disposable income gives a true measure of the present West German tax burden. It seems to confirm the assertion that the West Germans are today the most heavily taxed people of the world.

Bonn's art of strategy and diplomacy came best to light in the negotiations concerning the formation of the three European Communities. On public occasions West German representatives stayed mostly in the background and did not show interest in publicity.

This approach to the problem of European integration has been undoubtedly based on some lessons of history. One seems to have been the experience with previous German attempts to integrate economically some non-German territories—attempts that failed because of their close associations with ambitious political plans of their sponsors. Another lesson most likely was the chapter of Prussia's ascendancy to power and of her clever maneuvering and bribing, by financial concessions, of smaller German states to make them accept the *Zollverein*—the German custom union which later accelerated Prussia's economic growth.

Probably with these two lessons of history

[4] Norbert Muhlen, *The Return of Germany* (Henry Regnery Co., Chicago, Ill., 1953).

in mind, the experienced *Realpolitiker* in Bonn acted wisely when they did not display their keen interest in the integration plans, in order not to arouse distrust. They also served well their country's interest when later, in order to assure the acceptance of the plans, they showed their readiness for prestige concessions and for material sacrifices. What obviously motivated them in this remarkably far-sighted policy was their conviction that powerful, inherent forces within the German economy cannot fail to assure to their country the maximum benefit from the integration of the six economies and *via facti*, sooner or later, the leadership of the group.

For West Germany there was a great deal at stake. In 1950, when the Schuman Plan for the pooling of West German and French coal and steel production was launched, West Germany's economic sovereignty was still restricted by the existence of the International Ruhr Authority, an agency which allocated under the Allies' control the output of the Ruhr mines. The acceptance of the Schuman Plan implied the liquidation of the agency and the establishment of a supra-national organization of the coal and steel industry. Such an institution involved also some sacrifice of national sovereignty, but it was non-discriminatory, since the same sacrifice was to be made by all members. This international recognition of the principle of absolute equality of Western Germany with other nations made the plan particularly attractive to the Government in Bonn. The plan was also supported by West German industrialists who hoped that, under the control of the new supra-national authority in which they would participate, they would have better chances to preserve some of their mammoth industrial combines the survival of which was then still uncertain.

The first decade of the European Coal and Steel Community's operation confirms that the West German negotiators were right in their expectations. The combines continue to dominate the West German heavy industry which has in no way suffered in its expansion by the supra-national control. French strategy in this respect failed completely. From 1951 to 1961 Germany's steel output rose from 13.5 to 32 and, actually, to 36 million tons due to the inclusion of the Saar which had been returned to West Germany in 1959. In the same period, the French steel output increased from 10 to 18 million tons.

Still a much broader and brighter prospect appeared to West Germany with the opening of the negotiations for the establishment of the Common Market. Due to the structure of her economy, West Germany seemed to be able to secure important advantages from economies of scale such as no other member of the prospective community could expect. With their recently overhauled industrial equipment West German entrepreneurs welcomed the opportunity to compete on even terms with firms from other member countries. The prospect of a common market with 170 million customers appeared to them as "an economic gold-mine, and the German policy has naturally been intent on ensuring its success."[5]

Euratom, the third of the supra-national European communities, opened to the West Germans a much less inviting prospect. As the leading coal producers of the continent, with the largest and best coal reserves, they were not so worried about their future energy supply as were the French. Nevertheless, since the establishment of Euratom was requested by France as a condition of her acceptance of the Common Market, the West German Government complied.

Integration's Balance Sheet

Euratom was only one of many costly concessions that the German Federal Republic had to make in order to gain French acceptance of the Common Market. It also promised France to proceed with the canalization of the Moselle river which will reduce the transport costs for the Ruhr coal to the steel mills in the Lorraine; it granted to the Saar, upon its return to its German motherland, an exchange rate for the conversion of currency which was most favorable to France; it committed itself to the "harmonization" of its social policy on the French model (40-hour week, generous overtime pay, and so forth); it contributed $312 million to the Overseas Investment Fund of the Community from which mainly French African terri-

[5] Quoted from E. Strauss, *Common Sense about the Common Market* (Rinehart and Co., New York), page 85. E. Strauss' competent analysis of the relations among the members of the European Communities is summarized in these paragraphs.

tories would benefit; it yielded also in the last dispute over a common farm products policy —a concession whose cost is estimated at about 500 million DM a year, which the Federal Government will need to pay as its share into the agricultural fund to compensate West German farmers for the drop in their incomes that the common farm policy will cause.

From the West German point of view, all these concessions to France were worthwhile investments; they made of the Common Market idea a reality which, in the eyes of the strategists in Bonn, was the best assurance of Germany's fast economic growth and of her supremacy in Western Europe. Their hopes, it seems, are being fulfilled as the last West German production data indicate: The West German doubling of the French steel output and of the French automobile output, the trebling of the French coal output (and its quintupling with the inclusion of the West German lignite), the catching up with England, the traditional leader in textiles, in the output of wool fabrics and of rayon staple, the by-passing of England by 50 per cent in the output of cotton yarn and cotton fabrics.

Next to the fact that the European Communities created a first-rate framework for a fast growth of the German economy, they also may be of help to the government of the Federal Republic with the solution of some still open problems and of others that are likely to appear in the future. One of them is the labor supply problem which was aggravated by the Berlin Wall and which is likely to become even worse with the pressure of labor unions for the reduction of the still prevailing 45 hour work week. Agreements within the Communities and with neighboring or associated nations (Spain, Yugoslavia, Greece, and others) about the financing of moving, the transfer of pension and social security rights, the equality of treatment for across-the-border workers and similar issues can increase the labor mobility and alleviate the West German labor shortage.

Another problem may develop from the unusually high component of capital goods in the industrial output of the Federal Republic. It makes its economy more sensitive to cyclical trends than are the economies of its neighbors. Still another potential trouble spot is the great dependence of the West German economy on its export trade. Here particularly is the disproportion between the value of exported consumer and capital goods striking. While the United States and the United Kingdom maintain in the exports of the two groups of manufactures a ratio of about 1:2.5, the corresponding West Germany's ratio is 1:5. Due to this product mix in exports, a world-wide depression would probably hit West Germany's exports faster and deeper than the exports of her neighbors with greater shares of consumer goods.

There are still other problems that presently worry West Germany's neighbors more than her own people. One of them is the question of what would happen should West Germany one day have to choose between the two conflicting alternatives: to continue in her association with Western Europe or to achieve her national re-unification. So long as France and Russia have their present influence in West and Central European affairs, the execution of the two schemes seems to be mutually incompatible. West German people would have then to re-examine the old European value system of civil loyalties, established in the hey-days of national states, before they decide whether to follow the voice of reason and stay with the West, or give up this association to satisfy the emotional pull of their hearts.

The uncertainty about the policy that West Germany would follow in such a case is doubled by the prospect that Chancellor Adenauer will soon have to leave the political stage. He gave to the West German policy its pro-Western orientation and he re-introduced democratic institutions there.

At such a crucial point in her history, if West Germany turns east and rejects the Carolingian framework of European unity, this would also be the end of the European Communities. In such a case the other five members of the Communities would probably try to find, in association with England and the United States, a new formula for the protection of their interests. Such Atlantic agreements would be, however, different in spirit and in purpose from those that established the European Communities whose operation without the participation of their West German member is as inconceivable as a performance of Hamlet without the part of the Danish Prince.

Discussing the Italian economy, this author writes that "With the exclusion of those who vote for extremist parties, Italians realize that closer relationships, economic and political, with other nations create favorable conditions for expanding investment, for larger trade, for the absorption of surplus labor. These factors stimulate economic growth."

The Italian Economy: Chiaroscuro

By Massimo Salvadori

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In the economy, perhaps more than in any other field, a net distinction is often found between subjective evaluations (people's reactions to economic situations) and objective data. Italian and foreign commentators alike tend to present a dark picture of Italy's economy, characterized largely by lack of both natural and artificial capital, slow and uneven growth, low standards of living, unemployment and underemployment and sharp socio-economic differentiations leading to an acute class struggle. Recent statistical data give, instead, an optimistic picture characterized for the last few years by rapid growth, considerable expansion of output and rising standards of living. Negative and positive features—considerable dissatisfaction and intensive surge—coexist concurrently, and it is not easy to determine whether the sum total of the Italian balance sheet should be written in red or black ink.

Massimo Salvadori has taught at many universities in Europe and in the United States. He joined the Smith College faculty in 1947. Since the summer of 1955 he has directed the School for Freedom, organized by the Liberal International and held successively in various countries of Western Europe. His books include *The Rise of Modern Communism, Liberal Democracy,* and *Nato: a Twentieth Century Community of Nations.* In 1948–1949, Salvadori served in Paris as director of the Division of Political Science of UNESCO.

In 1949 the Italian GNP (in 1960 U. S. dollars) was evaluated at a little over $15 billion. This was about 3 times more than the GNP of 1860, the year in which, through wars and revolutions, five-sixths of what is Italy today merged into one state, with a population half that of 1950. For nearly 40 years after unification, economic growth had barely kept up with population growth, each increasing by less than half. Then there was a period of just under 30 years (1899–1927) during which the GNP nearly doubled and standards of living improved appreciably, particularly in northern and parts of central Italy. Autarchic and imperialistic policies of the Fascist dictatorship led first to stagnation, then—through the ravages of World War II—to a sharp decline in all fields of economic activity. Post-war recovery, stimulated by generous American contributions (total American aid since 1944 has amounted to about $4 billion), raised the GNP to the pre-war level by the end of 1949. Looking at the period 1861–1949 as a whole, the main features were the slowness and unevenness of economic growth.

In the 12 years, 1950–1960, the GNP passed from under $16 billion to about $32 billion. From 1950–1960 the net national income increased at an annual average rate of 5.7 per cent; industrial production at 8.5 per cent (the main gains were in the output of artificial fibers, of means of transport, in the chemical and metal industries); investments rose 8.7 per cent per year from a little over $3 billion to about $7 billion; imports went up 8.9 per cent per year and exports 12.1 per cent. Per capita production was up 60 per cent. Per capita income in-

Chart I

Gross National Product	+ 6.8%	Industrial Production	+ 15.3%
Net National Income	+ 6.6%	Transportation	+ 14.8%
Investments	+ 14.4%	Internal Trade	+ 9.3%
(Public investments	+ 30.0%)	Imports	+ 40.2%
Output private sector	+ 8.9%	Exports	+ 25.3%
Output public sector	+ 8.8%	Consumption	+ 6.4%

creased on an average by 4.8 per cent per year, and per capita consumption by 4.5 per cent (passing from under $300 in 1950 to over $400 in 1960). A 23.3 per cent increase in the number of dwellings (population increased 9.2 per cent) indicates improved living conditions. The increase of 12.5 per cent in the number of cattle and of 30 per cent in poultry is an index both of expanding agricultural activities and of improved alimentation. In terms of the Italian economic structure good signs were that the number of wage-earners and sharecroppers in agriculture declined by nearly 20 per cent and that employment in non-farm enterprises (whose number went up by 16 per cent) increased by nearly 34 per cent. For comparison's sake, it is worth mentioning that in 1953–1960 industrial output increased 82 per cent in Italy, 112 per cent in the Soviet Union and 19 per cent in the United States.

Statistically encouraging were the results achieved in 1960, the last year for which complete data are available. Percentage increases over 1959 are shown in Chart I.

Choosing a few other significant data at random, one finds in 1960 an increase of 20.3 per cent over 1959 in the sales of the few Italian "giant" corporations, and of 8 per cent in the number of their employees; an increase of 9.3 per cent in the number of tractors, probably the best index in relation to the modernization of agriculture; a decline of 28 per cent in unemployment; a surplus of $522 million in the balance of payments. Judging from a few available data, the leap forward has continued in 1961: during the first six months alone total output increased a further 8.4 per cent, the surplus in the balance of payments for January–July was about $600 million, income from tourism in January–August was 25 per cent over that of the corresponding months of 1960, exports for the year had risen by 13 per cent, and at year's end gold and foreign exchange holdings had grown by $400 million. In recent years Italy has witnessed "one of the world's fastest growth rates," it was stated in *Facts on Italy,* issued in the fall of 1961 by the Chase Manhattan Bank. Of the major industrialized nations, only Japan had a larger percentage gain in industrial production (27.3) in 1960 than Italy (15.3 per cent) in relation to 1959; corresponding percentages were 10.9 for France, 10.5 for Germany, 5.8 for Great Britain, 3.5 for the United States. One should of course always aim for more and better: but it is doubtful that the Italian nation could have done any better during the last 12 years.

Structure of the Economy

In 1960, 42 per cent of the national income was contributed by industry, 27 per cent by tertiary (service) activities, 19 per cent by agriculture and 12 per cent by the public administration. In industrial activities, mining contributes only 3 per cent to the total, the production of power 7 per cent, construction 14 per cent: the balance, 76 per cent, is represented by manufacturing. Mineral resources are scant: there is little coal, iron or other metal; only bauxite, magnesium, sulphur and mercury can be found in large quantities; Italian marble is famous but economically unimportant. In recent years large deposits of natural gas have been located, particularly in the lower Po valley of northern Italy and under the floor of the adjacent Adriatic Sea; output was 6.4 billion cubic meters in 1960. Oilfields have been found, the most promising of them in Sicily where production reached about 2 million tons in 1960—a small amount com-

pared with American or Middle Eastern output but already important in relation to Italy's needs.

The main source of energy is electricity, of which the ouput jumped from 25 to 55 billion kwh between 1950 and 1960. Three-fourths of the installed capacity is hydroelectric, and it is reckoned that by 1965 Italy may well have reached the limit of its hydroelectric resources. Nuclear power plants are under construction to take care of future needs. In manufacturing, metallurgical and mechanical industries come first, with nearly 1.5 million employees. Using imported iron and coal, the steel industry has more than tripled its output in ten years, to a total of over 8 million tons. Among mechanical products, many, from ships, cars (about 600,000 in 1960, of which one-third are exported) and machine tools to precision instruments, typewriters and sewing machines, are world renowned. Next come textile industries with about 1 million employees; here too, much of the raw material is imported. The clothing industries have found expanding markets abroad. With more than a quarter of a million employees, the chemical and petro-chemical industries are growing fast. Over half a million workers are employed in the construction industry.

Despite large mountainous areas, much poor soil, and scarcity of water in the center and south, Italy—as is well known—is intensively cultivated. Out of a total of about 75 million acres, 31 million are under crops (including 6 million under tree crops—grapes, olives, citrus fruit and so forth); pastures account for 20 million acres, and woodland (much of it scrub) for 15 million; the rest is waste or built-up area. Most of the arable land is under grains; in good years Italy produces just about enough wheat to fill its needs. Yields are relatively high but could be raised further. Italy is the largest producer of wine in the world and the second largest producer of olive oil. In recent years there has been an increase in the number of cattle and sheep, and considerable improvement in breeds; this has meant more meat, more dairy products, more wool. There has been a decline in the number of goats and equines. The 260,000 tractors are an index of mechanization. Output has increased steadily in all branches of agriculture (in 1961 about 5 per cent over the previous year).

In 1960 investments represented a remarkably high percentage of the national income —about 25 per cent or nearly $7 billion, of which 30 per cent was invested in industry, 20 per cent in dwellings, 10 per cent in agriculture, the balance in the rest of the economy. Nearly one-third of the total in 1960 was invested by the state and public corporations. Foreign investment totals about $3 billion: American direct investments were evaluated at the end of 1959 at about $313 million. Italy's present economic growth is directly related to the high rate of both private and public investment.

Foreign trade (in 1961 over $4 billion for exports and over $5 billion for imports) plays a much larger role in the Italian than in the American economy. Everything that affects it is proportionately more important. More than half of all imports consist of natural products; three fourths of all exports are represented by finished products. Italy is developing as a huge factory which transforms imported raw material into finished products, large quantities of them for export. Country by country, the biggest trade (about one-seventh of the total) is with Western Germany; next comes the United States (about one-eighth). In relation to larger areas, one-fourth of all Italian trade is with the other members of the Common Market, one-fourth with the rest of Europe, one-fifth with the Americas. Asia, Africa, Communist bloc countries and Oceania account for the balance. While the balance of trade regularly shows a deficit, the balance of payments shows a surplus, owed mainly to foreign tourism, foreign investment, and emigrants' remittances.

Out of a labor force of about 21 million people early in 1960, nearly 8 million were engaged in industry, just over 6 million in agriculture and about the same number in tertiary activities. Less than 1 million were unemployed. Entrepreneurs and the like (professional people, managers,) were just under 3 million, independent workers in agriculture, industry and trade about 5 million, wage and salary earners in private enterprises and in the public administration a little over 12 million.

About one-fifth of the industrial capital

is divided into minute fractions belonging to a large number of independent producers. The rest is concentrated mainly in a few thousand corporations belonging to a relatively small group of owners, among whom the largest is the state (see below).

In agriculture there are still too many people trying to make a living from the land (about as many as in the whole of the United States!), but their numbers are declining at a fairly fast rate. At the census of 1961, agricultural holdings were about 4.2 million: 81.9 per cent, covering about 55 per cent of the total farm area, were tilled directly by their owners; 11.2 per cent, with 16 per cent of the area (mostly in central Italy) were tilled by sharecroppers; 6.9 per cent with 29 per cent of the area were either leased to tenants or cultivated through laborers that form the mass of so-called landless peasants. The scourge of the traditional dichotomy between a largely parasitic landowning class and hard-working peasants is still there, particularly in the south, but it is on the way out.

Compared to other Western industrial countries, wage-earners in Italy are among the lowest paid. In 1960, for instance, average hourly wages in manufacturing were only 64¢ compared to 80¢ in France and 93¢ in Germany (and $2.81 in the United States), but the workers' lot is improving. In the private sector of the economy real wages increased 74 per cent between 1953 and 1960 (80 per cent in industry, 82 per cent in tertiary activities, 20 per cent only in agriculture); in the public sector the increase was 86 per cent. Social security has a rather limited scope but it has been improved considerably during the last ten years.

Sharp differences are hidden behind average figures. The skilled worker in Turin may earn the equivalent of about $50 per week (more, in terms of purchasing power); but a factory worker in central Italy will receive half that amount or less. Again, in central Italy the agricultural laborer, whose employment is usually uncertain, receives $15 per week, and in Sicily both the agricultural laborer and the miner often earn less than $10 a week. Independent workers —the artisan, the small storekeeper, the farmer owning a few acres—are as a group worse off than wage earners. In most trades and professions young people find a difficulty in getting their first job that is unknown to young Americans. A survey made a few years ago showed that sub-standard living was the lot of about one-fourth of the Italian population. The percentage has since been reduced, but it is still large. At the other extreme is the small group of very wealthy families. The wide range of income, the uncertainty of employment for millions, and the ostentation of wealth are the main factors in the social tension revealed by the appeal of integral Marxism.

Unemployment has been chronic for a long time. It still weighs heavily on the nation although in recent years the totally unemployed have declined from about 2 million (one-tenth of the labor force) to just over half a million at the end of 1961. Underemployment, particularly in agriculture, adds to the strain.

Emigration is no longer the large-scale phenomenon of past decades but it still is considerable. From 1955–1960 about 2 million Italians looked for jobs and a better life abroad. Permanent immigrants include, to Italy's loss, large groups of skilled workers and professional people.

North and South

The economic antithesis between north and south (the dividing line cuts the peninsula just below Rome) is a commonplace which is also a tragic reality. The progressive and fast developing north is now on a par with the advanced countries of northwestern Europe. The underdeveloped south contains about two-fifths of the population and accounts for the majority of both the unemployed and the underemployed; average per capita income is half what it is in the north. This division reflects a cultural difference which has plagued Italy since the Middle Ages when authoritarianism became stronger in the south while a freer way of life became dominant in the north and center. For nearly 2000 years, since the early Greek settlements in Sicily and the mainland, the south had consistently been more advanced than the north. For the last eight centuries or so it has been the other way around.

As in the past, most of the Italian emigration to overseas countries is from the south

(70 per cent in 1955–1960). Since World War II there has also been large scale internal emigration from the south to Rome and the industrial cities of the north, creating problems with which Americans are familiar through the influx of southerners and Puerto Ricans in New York, Chicago, Detroit. Since 1950 there has been a concerted effort (see below, *the role of government*) to stimulate the economy of the south. Statistically there have been results: incomes have risen, employment has increased percentage-wise more than in the north, modern factories can be seen in Naples, Bari, Taranto, Gela and many other cities. There are more roads, fields are better cultivated, dwellings have improved. But the Italian southerner still feels that he belongs to a depressed area.

Professor Ferrari-Aggradi, economist and a friend of the 1961 Italian Prime Minister, Signor Fanfani (himself an economist whose book on *Catholicism, Protestantism and Capitalism* appeared in English in 1939), recently listed the elements contributing to Italy's economic "miracle." He mentioned tenacity, sobriety and industriousness as widely diffused national characteristics; skill and goodwill among the workers (whose restraint and discipline seem often to contradict their politics); a spirit of initiative, progressiveness and imagination on the part of the entrepreneurs; *and,* last but certainly not least, sound governmental policies.

Italian experts agree that the role of natural resources has often been overrated; that considerable results can be achieved even with modest initial capital; that the proper use of man's energies, capacities and skills is of primary importance. With regard to natural resources and capital, Italy's position at the end of 1949 was not basically different from what it had been at the end of 1927; however, 1949 was followed by 12 years of expansion and 1927 by 12 of semi-stagnation. The temper of large sections of the people and the institutions within which people operate had changed, not their natural and artificial capital.

Even before World War II ended, the Italian nation witnessed a remarkable expansion of what can be called the capitalistic spirit: initiatives multiplied, risks were taken, new techniques were introduced, re-investment took precedence over increased consumption.

The Role of Government

In Italy, besides public administration, there is a large public sector of the economy; governmental action is correspondingly important. It is difficult to establish a clear-cut division, percentage-wise, between public and private economic sectors. Partly for economic reasons (the growing inability of owners to run their enterprises profitably in the early 1930's) and partly for political reasons (the need to subordinate economic forces to the state), the Fascist dictatorship took over, 30 years ago, a considerable section of Italian industry, banking and transport, adding them to already large public holdings.

To give an idea of the role of government, it is enough to note that well over one-fourth of the national income passes through the hands of the state, that in 1960 22 per cent of all personal incomes were paid by public bodies and nearly one-third of all investments originated in the state. Judging from the results, it is clear that Italy's financial and economic policies have been basically sound (a good deal was contributed to their formulation by Luigi Einaudi, d.1961, economist, Director of the Bank of Italy, Minister of Finances and President of the Republic 1948–1955). Among state-owned corporations the best known abroad are I.R.I., a giant public holding company controlling about 30 per cent of the country's industrial output (steel, machinery, power plants, shipping) and E.N.L., a huge state-owned oil and gas complex. Most railroads, all large banks, all airlines, are state owned. In Italy private competitive free enterprise flourishes alongside public monopolies and public corporations.

Einaudi planned the 1947 stabilization of the currency, the first important step in creating a sound financial basis for Italy's economy. Internal price controls were abolished and the rate of exchange was fixed at its true level in order to enable Italian products to compete in foreign markets. Government, says Professor Ferrari-Aggradi, "aimed at raising the level of aggregate demand nearer the production potential and reconciling the expansion in production

needed for social stability with the necessity that investments should assume an always higher importance in the utilization of available resources." Government policies since 1947 can be summarized in four main points: achievement of financial stability, stimulation of private enterprise through high rate of investments, greater productivity through the improvement of technical training and the adoption of more efficient techniques, liberalization of foreign trade and participation in expanding markets.

Of particular importance internally have been the establishment of the *Cassa del Mezzogiorno,* the agrarian reform and the Green Plan, the adoption of the Vanoni scheme. The function of the *Cassa del Mezzogiorno,* created in 1950, has been the development of the economic infrastructure in the south (mainland and islands). For the period 1951–1966, 2,078 billion lire (about $3.2 billion) were allocated to the *Cassa,* of which 1,150 billion were for agriculture, 312 billion for water supplies, 260 billion for transportation and communications, 254 billion for industries. During the first five years the *Cassa* received $160 million from the I.B.R.B. Announced by Premier De Gasperi in 1950, the agrarian reform involved the redistribution of about 3,750,000 acres in order to reduce the area of large neglected estates for the benefit of landless peasants. The reform was carried out in two phases: one immediate, involving 1,750,000 acres (or one-fifth of all large and medium estates), the other—a long-range plan not yet completed—affecting 2 million acres. Owners were compensated on the basis of tax evaluation (considerably lower than the market value of the land). The five-year Green Plan for agriculture, approved by Parliament in 1961, involves expenditures of over $1 billion in aid to farmers. The Vanoni scheme of January, 1955, was described not as a "rigid plan regulating future productive activities" but as a basis for the "orderly growth of production and the development of backward areas . . . through a spontaneous co-ordinated and intelligent effort on the part of all productive groups." The scheme, a combination of planning and free enterprise, aimed at greater investment, a 5 per cent annual growth, the creation of 4 million jobs in ten years, the reduction of unemployment to 3.5 per cent of the labor force. Growth, as already seen, has been greater than 5 per cent, 2.5 million new jobs were created in five years, and by mid-1961 unemployment was below 3.5 per cent.

In the international field there has been a total reversal of the nationalistic policies of the Fascist regime. Since May, 1947, Italy's government has been based on a broad coalition of Catholics, democratic Socialists, and the smaller Liberal and Republican parties (roughly corresponding to the American Republican and Democratic parties respectively). In the late 1940's and early 1950's the main spokesmen for the four groups were De Gasperi, Saragat, Einaudi and Sforza, all of them deeply committed to ideals of international cooperation. Whatever their actual composition, during the last 15 years Italian governments have cooperated loyally with the United Nations; they have also supported enthusiastically all European and North Atlantic initiatives aiming at closer collaboration, if not at integration among Western nations: O.E.E.C., the Council of Europe, Nato, the Coal and Steel Comunity, Western Union, Euratom, the Common Market, O.E.C.D. Aid to underdeveloped countries is a manifestation of Italy's internationalism: in 1960 it amounted, in round figures, to $230 million, representing nearly the same percentage of the national income as American aid.

With the exclusion of those who vote for extremist parties, Italians realize that closer relationships, economic and political, with other nations create favorable conditions for expanding investment, for larger trade, for the absorption of surplus labor. These factors stimulate economic growth. The Italian government favors in Europe a Federation of the Six if more cannot be achieved, possibly of all 18 countries west and south of Communist-controlled states. It supports efforts aiming at the formation of a closely integrated North Atlantic Community. For Italy, the era of economic and political nationalism seems to be over. If present internal trends are maintained and internationalism prevails over nationalism, Italy's economic future may be viewed optimistically.

"The possibility of expanding E.F.T.A. . . . and the Common Market into a larger unity that might grow into an Atlantic economic community unquestionably presents a challenging perspective," writes this historian, noting however that "Entrancing as such a prospect is, it does not by itself suffice to eliminate, in the Scandinavian view, concrete considerations of overriding importance." These include political, economic and cultural factors that are clarified here.

Scandinavia Looks at European Unity

By John H. Wuorinen
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Denmark, Finland, Norway and Sweden represent a unique area in north Europe. Taken together, they illustrate a degree of homogeneity that stands out in sharp contrast to factors and circumstances that divide the other Western peoples. Their economic development has followed much the same general pattern. Political institutions have long functioned in a way that shows these nations to be tested and tried democracies. The history of law and the administration of justice underscore the same fact. Educational developments, especially during the past century, and the position and functions of the national churches, likewise disclose the same basic Western ways of handling the problems of man and his society.

The implication of these all-important similarities is not, needless to say, that past historical development or the requirements of the passing hour have erased the lines that divide Scandinavia into four states. (Iceland is omitted from this discussion.) Quite the contrary is true. Especially since the first half of the last century, some of the differences have become more rather than less deeply etched: each has its own distinct political structure; linguistic differentiation is in some ways growing rather than decreasing; and each of the four peoples considers itself the possessor of a separate culture and "national character." This basic fact has not been blurred by the important and growing area of intra-Scandinavian cooperation—itself a most fascinating development that spans especially the decades since World War I—that has by now created what might well be called the beginnings of common citizenship for the nationals of the four countries.

These four nations comprise an area of about 445,000 square miles. Their combined populations approximate 20,000,000 (Sweden 7,500,000, Finland 4,490,000, Denmark 4,500,000, Norway 3,500,000). They have built, especially during the past three generations, an industrial society and potential out of proportion to the size of their populations. And in agriculture, mechanization and ready utilization of new scientific techniques have wrought a revolutionary change that has transformed earlier modest farming resting on grain growing into modern agriculture capable of producing high grade commodities for foreign as well as domestic markets.

In the wake of these changes have come certain new problems and vulnerabilities. The end result of the changes suggested

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above has been increasing dependence on the outside world. Foreign trade in substantial volume has become absolutely indispensable. Today's prosperity and living standards—among the highest in Europe—could not possibly be maintained without large exports. Foreign markets, capable of absorbing year in and year out the products of Scandinavian ingenuity and labor, are a must. Incidentally, foreign markets can be reached, for the most part, only by ship; overland foreign trade is, by comparison with water-borne foreign trade, secondary. These nations are thus in a sense islands and therefore exceptionally exposed, in a vital area of their economies, to the disturbances caused especially by European international crises—to say nothing of war or the threat of war. That they are also sensitive to and influenced by international agreements or arrangements either restricting or easing access to vital markets goes without saying.

Their general place in the European and world economic setting was clearly sketched a few years ago (1957) in a report of the Nordic Economic Cooperation Committee. Prepared under the direction of Danish, Finnish, Norwegian and Swedish cabinet ministers, it showed among other things that the 20 million inhabitants of these four countries account for less than 0.75 per cent of the world's population but have a combined national income that came to 2.4 per cent of that of the world; that their share of international trade normally is 4 to 5 per cent; that they have some 12 per cent of the shipping tonnage of the world; and that while their populations amount to only 6.7 per cent of West Europe's population, their total gross national product measures over 9 per cent (the figure for 1954) of that of West Europe.

The idea of economic cooperation within the Scandinavian group of nations emerged and was discussed well over a century ago, and some advance in this area had been recorded by 1900. The years of the first World War—and such earlier developments as the dissolution of the Norwegian-Swedish Union in 1905—meant a serious setback to the hopes of further progress. Wartime experiences, however, demonstrated the usefulness of and need for cooperation. This was clearly shown in 1919 when the Governments of Denmark, Norway and Sweden initiated a joint investigation of ways and means for promoting Scandinavian economic cooperation. While the work of the committees then set up yielded no concrete results at the time, the climate favoring cooperation improved during the 1930's. This was true especially after 1932. By that time the difficulties caused by the depression had been fully recorded in many sectors of Scandinavia's national economies.

World War II again interrupted developments that might have led to systematic and expanding programs of cooperation. But the war years also meant experiences that gave wider currency to ideas in support of a common market and common trade policies. In the spring of 1948, a Joint Scandinavian Committee for Economic Cooperation was set up by Denmark, Norway, Iceland and Sweden (Finland was as yet unable to participate). Its main task was to examine the possibilities for a common tariff as a basis for a Scandinavian customs union. It held (in 1950) that the elimination of intra-Scandinavian tariff walls and the introduction of uniform customs duties on imports from non-Scandinavian countries would benefit the North's national economies, and that the establishment of a Scandinavian Customs Union would be wholly compatible with the plans, then being discussed, for the economic reconstruction of Europe. Its formal report, however, concluded that "for the present" a full customs union comprising the peoples of the North could not be launched.

But like Banquo's ghost, the idea would not down. After the Nordic Council began to function in 1953—the Council has been called, quite appropriately, "the most important achievement of the past one hundred years of Scandinavian collaboration"—the question was tackled anew. The result was that plans for a Common Nordic Market comprising Denmark, Finland, Norway and Sweden were extensively discussed, and considered in detail at the conference of the Council in Helsinki in February, 1957.

The plans had reached an advanced stage but had not been worked out in concrete detail when problems arising out of consideration of larger European market arrangements came to the fore. That is to say, before the Scandinavian program had become ready

for final political decision making by the national governments, the Scandinavian common market project was overtaken by the plan to set up more extensive common market areas in west and central Europe. It will be recalled that the Rome treaty establishing the continental common market of the Six was signed on March 25, 1957, and that the European Economic Community (the E.E.C.) became a fact on January 1, 1958. Meanwhile, the efforts to create a free-trade area had also continued. They made little progress, however, whereupon the idea of establishing a European Free Trade Association (E.F.T.A. or the Outer Seven) emerged. This took shape early in 1959, and by the summer of the same year Britain, Denmark, Norway, Sweden, Portugal and Austria had agreed to form such an Association. It went into effect on January 1, 1960. Finland became an associate member July, 1961.

The functioning of E.F.T.A. in 1960–1961 showed that the interests of its members had been well served. Considerable mutual tariff reductions were achieved and the advantages of market integration among the members was accordingly recorded. On the other hand, it had become clear even before E.F.T.A. was launched, and remained obvious after 1960, that a number of problems still awaited solution. Iceland's failure to join illustrated part of the problem. Fish and fish products account for 95 per cent of Iceland's exports. The chance that Iceland could appreciably increase her fish exports to Scandinavia was small, while any real increase of industrial imports from Scandinavia would unavoidably work hardship on Icelandic manufacturers. Finland and Norway likewise were in a less favorable position than Sweden in some areas of industrial competition, and Denmark on the other hand represented competitive capacity especially in the field of dairy and processed food production that Denmark's sister nations could not fully match.

The decision of Britain to undertake negotiations with the Common Market group with a view to membership in it at once changed the situation within E.F.T.A., with special and immediate effects upon Denmark. Denmark also decided to get in line for possible membership in the E.E.C.

The Danish Dilemma

Denmark's position and problems in connection with possible affiliation with the Common Market can be understood readily enough, and explain the Danish Government's request (in July, 1961) to the members of the E.E.C. for negotiations aiming at membership in the Common Market group. It will be recalled that Britain began, in the summer of 1956, discussions for a European free trade area of all member countries of the O.E.E.C. (including the Inner Six). The effort broke down in late 1958. Meantime the six Common Market nations concluded the Rome Treaty in January, 1957. These were developments that Denmark could ill afford to ignore, in view of her vital economic interests in the areas involved.

In 1960, the E.F.T.A., and the Common Market nations absorbed 71 per cent of Denmark's exports; the money value of the exports was ten billion kroner. Of this huge amount, the six Common Market nations took a little less than fifty per cent, or nearly one-third of the total exports of the country. Of the all-important agricultral exports, over 90 per cent went to the two groups; somewhat more than one-half of this proportion went to E.F.T.A. (mainly to Britain), while West Germany and Italy absorbed most of the Common Market proportion.

In view of the decisive importance of exports (especially agricultural exports) to Denmark's economy, it is easy to understand the Danes' fear that one-third of their total exports and some 40 per cent of the country's agricultural exports would be, in time, exposed to various forms of discrimination in the area of the Common Market. The simple device of merely joining the Inner Six could not be accepted as a solution. The main reason was Britain.

Britain has long been Denmark's most important buyer of agricultural products: in 1960, Britain alone took two-fifths of Danish exports in this category. If Denmark were to join a common market while Britain remained outside, the Danes would run the risk of jeopardizing their vital export interests in an old and relatively stable market. It was therefore clear that only a combination or arrangement that would bring both Britain and Denmark into a common affiliation

with the Six would provide a satisfactory solution. Because of her export interests in Britain, Denmark had become a member of E.F.T.A. in 1959; in 1961, because of the same vital interests, Denmark found it necessary to contemplate membership in the larger market area to which her two main customers, Britain and Germany, would belong if and when Britain's decision to join the Common Market had been carried out.

The question of whether or not Norway should seek membership or some other connection with the Common Market was extensively debated during 1961. A lengthy Government report, weighing the various alternatives involved, was received by the Parliament last October. The consequences of remaining outside the Six were evaluated and the point made that non-membership (or non-affiliation) would primarily affect Norway's exports. The report pointed out that 55 per cent of the country's exports today go to the Common Market, Britain and Denmark; the combined figure for the Common Market and all of the E.F.T.A. members is about 75 per cent. Thus three-fourths of Norway's exports would be adversely affected by the higher tariff rates imposed in these markets on Norway if the nation remained outside the expanded common market.

There is another side to the coin. If Norway becomes part of the Common Market, increased costs and higher prices on some consumer goods imported from countries outside the Six would be unavoidable. At the same time, membership might well result in a 50 per cent reduction of Norway's present tariffs levied on goods imported from the Six. Such a substantial tariff cut would in all likelihood impose hardships on some Norwegian industries that serve primarily the domestic market and would also add to the difficulties of the transition period. Finally, existing price supports for agricultural products and the special needs of the fishing industry pose additional problems. The same applies to the complex question of regulating the right of foreign firms—clearly defined in the Rome Treaty—to establish businesses in Norway, possibly to the detriment of native enterprise.

The abandonment of the original plan for a Scandinavian common market, and the subsequent establishment of E.F.T.A., posed special problems for Finland. They derived partly from the desire of the Finns to see to it that their trade with the eastern bloc would not be adversely affected, and that nothing were undertaken that might be interpreted by Moscow as a deviation from a policy of strict neutrality in all matters. On the other hand, a large part of Finnish foreign trade—approximately one-third—meant trade with the seven E.F.T.A. nations. It was therefore natural that Finland would carefully explore the possibilities of devising, in cooperation with the E.F.T.A. members, ways and means whereby the Republic's vital economic interests in this area could be safeguarded. The result was a special convention with E.F.T.A., signed on March 27, 1961, that provided for affiliation with E.F.T.A. as of July 1, 1961. The convention created a new free trade area within which Finland enjoys the same rights and assumes the same obligations (with some exceptions) as the other nations have assumed with respect to each other. The agreement went into effect on the date specified.

The emergence in recent months of the possibility that Britain and Denmark, and possibly other E.F.T.A. nations as well, would become affiliated with the Common Market has added new complications. They involve economic interests of considerable magnitude as the following figures clearly show. During the first half of 1961 (before Finland's affiliation with E.F.T.A. had gone into effect, and therefore before the advantages of affiliation had been recorded in growing exports) the Common Market and E.F.T.A. nations combined absorbed 65 per cent of Finnish exports. The Common Market alone accounted for 30 per cent of the total exports (an increase of 20 per cent over 1960). Britain was once again Finland's best customer and accounted for 67 per cent of the E.F.T.A. total. Incidentally, the eastern bloc markets—including the U.S.S.R.—accounted for 17 per cent of the exports, as against 19 per cent in 1960. These figures more than suffice to indicate the extent to which Finland's trade continues to be overwhelmingly Western oriented.

In the event that present obstacles to the establishment of a Common Market-

E.F.T.A. affiliation are removed and the larger free-trade area surrounded by a tariff wall is created, Finland will once again be faced by grave difficulties. Whether some form of affiliate membership can be provided, analagous to the arrangement that brought Finland into association with E.F.T.A. remains to be seen. Whatever the solution, it will involve economic interests that form the basis of the continued prosperity of the Republic and the high standard of living which past developments have made possible.

Swedish Neutrality

While Denmark has committed herself to full membership in the Common Market, Norway has clearly followed the same path, and Finland has defined her special position by means of the affiliation formula in associating herself with E.F.T.A., Sweden has marked off a course that differs in some respects from that of her three Scandinavian sister nations.

The decision to apply for an "association with" the six nations of the Common Market was announced by Premier Tage Erlander and the Minister of Commerce Gunnar Lange in the Swedish Riksdag on October 25, 1961. It was pointed out that in view of the fact that about two-thirds of Sweden's trade is European—mainly West European—cooperation in matters economic with the nations involved in the creation of a larger common market is a must for Sweden. Cooperation with these nations, however, must not jeopardize Sweden's policy of alliance-free neutrality. Full membership in the E.E.C. would necessarily mean the acceptance of all the obligations—including the goal of increasing political integration of the member states—put forth in the Rome Treaty. This purpose Sweden could not accept without abandoning her strict neutrality policy. The choice of the Government, in view of these factors, could therefore only be participation by means of "association."

Thus Sweden, in continuing undeviatingly to pursue a foreign policy line long since accepted as the best safeguard of the nation's interests, has in effect chosen an approach to the E.E.C. that is analogous to that considered appropriate by Finland in her affiliation with E.F.T.A. The choice has served to underscore the fact that the varying positions assumed by the four states of the North vis-á-vis formation of a larger European free-trade area have been determined by national considerations, and do not reflect or illustrate Scandinavian unity of action in handling a question vital to them all.

The possibility of expanding E.F.T.A. (or a part of it) and the Common Market into a larger unity that might grow into an Atlantic economic community, unquestionably presents a challenging perspective. The fundamental community of interest which binds together the peoples of the free West in Europe might well seem to dictate increasing integration productive of greater international concord as well as prosperity.

Enticing as such a prospect is, it does not by itself suffice to eliminate, in the Scandinavian view, concrete considerations of overriding importance. In each of the nations of the North, the concrete considerations involved exist within the bracket of national concerns, national preferences and national requirements. Some of them have been identified or suggested in the preceding paragraphs. To them must be added, by way of a general conclusion, certain other factors and circumstances that throw light where light is needed.

There exists, for example, a constitutional question of real importance. It involves Denmark and Norway but not Sweden or Finland. The Danish constitution of 1953 provides among other things that no part of the national sovereignty can be turned over to a supra-national authority (this would be involved in the acceptance of the Rome Treaty as the basis for E.E.C. membership) except by a majority of five-sixths in the Parliament. Premier Einar Gerhardsen of Norway pointed out last August that Norway's Constitution also would have to be amended, for the same basic reason, before that country could join the Common Market. While constitutional amendment would in neither case involve great difficulty, the mere existence of the problem suggests complexities that require more than passing attention.

The economic aspects of the problem are likewise far from simple. Acceptance of the Rome Treaty would mean among other things acceptance of the "right of establishment."

This right means that corporations in one Common Market country are free to acquire majority control of corporations in other member states. The privilege is more than likely to work to the advantage of the larger nations—specifically, their investors—at the expense of the smaller. Mr. Knut G. Wold, Deputy Governor of the Bank of Norway, in speaking of this aspect of the problem last June, remarked that obviously nobody in Norway could obtain control of important German or French corporations but that the reverse might well turn out to be the case. "But we would like to retain control over the exploitation of our own natural resources." In fact, Norwegian legislation has limited, for the past many decades, foreigners' rights to acquire control of certain basic national resources.

Agriculture also contributes its share to the difficulties. The problem is not merely one of differences in theoretical productive potential as determined by soil, climate and the utilization of scientific know-how. The fact is that farm crop surpluses and other needs have led to various national subsidies, subventions, export premiums and similar devices for keeping the price of farm products at higher than the "market price" level. It is difficult to imagine a genuine Common Market in farm products, extended, say to Norway or Sweden, without consequences of a most distressing kind for local producers.

Nor is this all. Within the larger common market, competitive capacity—one is bound to think of it, for better or worse, in national terms, meaning thereby "German," "Swedish," "Belgian" and so on—will be determined by factors that differ widely from country to country. Differences in rates of taxation, depreciation allowances, write-offs and the like readily come to mind; a national economy that is geared to the support of an advanced "social welfare state" is, possibly severely, handicapped in competition with an economy as yet less heavily committed to a liberally conceived system of social services.

It has been noted that Denmark has shown the greatest readiness among the Scandinavian nations to accept the verdict of economic circumstance and to seek a place in the Common Market line-up. Danish expertise in industry, trade, agriculture and shipping has been pretty unanimous in concluding that the country's interests will be best served thereby. But a good many perceptive Danes have raised the question whether, after the economic coordination implicit in the consequences of a common market has been carried to its logical conclusion, there will still be a culturally and nationally separate Danish people, or merely a "coordinated province" within the larger West European entity (with probably a strong German patina).

The Danish discussion of the possible "national" or "cultural" consequences of bringing Denmark into the larger European economic community envisaged by the advocates of integration may well seem premature and unrealistic. But the undeniable fact is that integration does pose certain questions for the small nations that the larger countries can well afford to ignore. The ultimate answers will no doubt be given by considerations directly related to national interest rather than by the abstractions that support loosely defined conceptions of "European" or "international" unity and the advantages allegedly offered by it.

Finally, it is difficult to see the four states of the North voluntarily assuming international affiliations and commitments that would limit the area within which Swedish or Finnish neutrality policies, now clearly defined and firmly fixed, are considered paramount. Nor is it easy to imagine these nations individually or severally accepting policies that would mean the razing of the imposing edifice of Nordic cooperation that they have laboriously erected during the past several decades.

That the contrary is more than likely to be the case was indicated last November when the Premiers of the four nations and Iceland conferred in Hanko, Finland. The main item on the agenda was the question of closer economic relations. The conference agreed that the "fundamental purpose" was to make sure that there would be a "no setbacks in any field of Nordic cooperation already embarked upon," as Sweden's Premier Tage Erlander put it. This resolve will undoubtedly continue to decide in considerable part the extent to which the Scandinavian democracies will participate in West European economic integration.

This authority foresees "steady progress" for the economies of the Benelux states, and writes that "The Benelux economies enter the immediate future with considerable optimism. As integration progresses in Western Europe, they will progress."

Benelux and European Trade

By F. Gunther Eyck

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The economic importance of the Benelux countries—Belgium, the Netherlands and Luxembourg—bears no relation to their diminutive size and comparatively small population. In area, the Benelux countries approximate West Virginia and the population of about 21 million is slightly less than that of New York and New Jersey combined. Yet the three small countries together constitute the fourth largest trade unit in the world. On a per capita basis Belgium and Luxembourg form the foremost trading unit in the world, with the Netherlands in second place.

In order to achieve and maintain these positions the Benelux states have integrated their economies to a large degree. They also have become charter members of the European Economic Community, the E.E.C. The economic integration of Benelux had its origins with the fusion of the Belgian and Luxembourg economies in 1921. In spite of minor differences both partners in the BLEU benefited from it. So completely have the two economies intermeshed that they are unlikely to be separated in the future.

The BLEU served as a model for the formation of the Benelux economic union. In September, 1944, the Belgian, Dutch and Luxembourg governments, then in exile, concluded a customs convention. This was to serve as a first stepping stone toward a "complete and durable economic union" and was also designed to ease rehabilitation at the end of World War II.

Hopes ran high that Europe's first postwar economic union would also be the first one to succeed. Events were to prove somewhat differently. In spite of good intentions and common interests, difficulties beset the planned union from the outset. Belgium had been spared much of the destruction of World War II. The Netherlands, on the other hand, was under Nazi occupation almost to the end of the war. Its economic losses were estimated at over 30 per cent of the national wealth as against from 6 per cent to 8 per cent for Belgium. Economic inequality was furthered by the fact that the Belgians continued in possession of the mineral-rich Congo for another 15 years while the Dutch lost Indonesia by 1949. The new partners also differed widely in their wage and price policies as well as fiscal structure. The Belgians favored laissez-faire, a "hard" currency and flexible wages, while the Dutch opposed these concepts.

At times the very foundations on which the union was to be built appeared to crumble. In 1953, it seemed on the verge of collapse when increased Dutch industrial competition sharpened Belgian objections. But in the long run common sense, good will and the realization of ultimate mutual benefits prevailed. The fiscal and social service systems, wages and prices were gradually adjusted. Other than in agricultural products, 97 per cent of intra-trade was liberated from all restrictions. A common foreign trade policy

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was agreed on. Capital was free to move from one member-state into another and the freedom for labor to move across the frontiers followed suit. Having thus cleared most major obstacles, the formal treaty of economic union was concluded in February, 1958, and became effective November 1, 1960. The three countries benefit in ever increasing measure from this union. Today the Netherlands is the principal customer of the BLEU while the latter ranks second in Dutch foreign trade.

After sampling the fruits of economic integration within their own area, the Benelux countries were not slow to join enthusiastically such larger groupings as the Coal and Steel Authority and the Common Market. Recently, however, they have become critical of certain trends within E.E.C. The Dutch specifically objected to French plans aimed at political confederation rather than economic integration. They also have held out consistently for inclusion of Britain within E.E.C., hoping her entry would balance the dominance of France and West Germany. The Dutch have criticized the agricultural differential which allowed French and German agriculture a strong measure of protection while Dutch agriculture is essentially unprotected. The Belgians, in turn, have smarted from inabilities to compete with other E.E.C. countries in coal production but E.E.C. supports have now largely muted such criticism. They have also criticized French proposals for political confederation because these proposals do not sufficiently complement economic integration.

In spite of such strictures the Benelux countries are aware of the advantages reaped from participation in E.E.C. Trade with their partners has consistently increased. BLEU exports to E.E.C. have risen from 45 per cent in 1958 to 64 per cent of all exports in the first half of 1961; imports from E.E.C. are near the 50 per cent mark. In 1960 alone, Belgian exports to E.E.C. rose by 27 per cent against 1959. Three-quarters of Belgian industry is said to benefit from E.E.C. membership. Dutch exports to E.E.C. in the first six months of 1961 amounted to 46.5 per cent and imports to over 49 per cent. Throughout 1960, imports from E.E.C. rose by 19 per cent and exports to E.E.C. 16 per cent as against 1959. By contrast, the European Free Trade Association, E.F.T.A., has played a much smaller role in Benelux trade.

The Dutch Economy

Integrated as the national economies of the Low Countries are within the Benelux union and E.E.C., they have not lost their identities and peculiarities. After a decade of penury following World War II the Dutch economy made a remarkable recovery, due to the tenacity and cooperation of its people, the careful planning of its governments, the modern plant equipment, and its traditionally favorable position as a clearing house of Western Europe. Even the loss of the East Indies could not retard recovery for long.

In 1960, the economy experienced boom conditions which continued in modified form through 1961. The growth of E.E.C., increased foreign demands, and stable financial and labor conditions were contributive factors. The GNP growth rate for 1960 was estimated at 8 per cent and for 1961 at 3.5 per cent. This slowdown was mainly caused by the depletion of capacity reserves and the introduction of a shorter working week, now generally 45 hours. The 1961 GNP was valued at over $12 billion after doubling in the decade 1950–1960.

The major problems facing the expanding Dutch economy today are a shortage of skilled labor, inflationary pressures, sufficient new housing, and the effective integration of agriculture within the E.E.C. In regard to the first of these problems, the basically sound financial and fiscal position of the Netherlands was subject to some adjustments in 1961. The revaluation of the German mark caused the Dutch government to follow suit, since West Germany is the foremost trade partner of the Netherlands with 20 per cent of all trade. Hard money policies and fiscal retrenchment had domestic and international effects. Exports slowed down due to the higher rate of exchange, but the balance of payments remained good due to repatriation of Dutch capital, limited flotations of foreign capital in the Netherlands, and invisible earnings.

Domestically the financial position is hardly less favorable. The 1962 budget is expected to yield a 7 per cent increase in revenue and a 5 per cent drop in expenditure. Even so a slight deficit is anticipated.

The national debt now stands at about $5.5 billion. In order to guard against further indebtedness and inflationary trends the government has introduced a "differential" wage policy. Pay increases are only granted when productivity increases above average in a given industry and on condition that prices for finished products would decrease at the same time. In turn, price increases are to be granted only if costs other than wages climb. While prices remained fairly steady in 1961, wage increases from 5 per cent to 6 per cent have been granted to some 70 per cent of the labor force. Yet the over-all wage level still lies below the E.E.C. average.

The Dutch economy may be said to have been primarily conditioned by water. For centuries the Dutch fought heroically and ingeniously against inundations, common in a country nearly one-third of which is below sea level. They utilized the water by developing an elaborate system of canals which, together with dykes and windmills, have given the Dutch countryside its famed physiognomy, and to the economy its most important transportation network. In other instances the waters have been drained rather than used. Land reclamation is an essential aspect of the Dutch economy. Nearly 125,000 acres of cultivated land have been added by the *impoldering* of the North-East polder. Ultimately the Dutch expect to increase their arable land by 10 per cent and to relieve population density, the world's highest with over 877 people per square mile.

The water-minded Dutch also learned early how to utilize the sea. They became the foremost shipbuilders in Europe. Today the Dutch merchant marine ranks in ninth place with over 4.5 million tonnage. In volume of trade Rotterdam is the second largest port in the world and accommodated almost 24,000 ships in 1960. Nearly half of the annual volume discharged is destined for transshipment. Among other carriers the KLM airline operates at considerable loss. Its abortive demands for additional landing rights in the United States have led to much criticism of the latter.

The Dutch are today, as they have been for centuries, among the leading commercial nations. In the first nine months of 1961 their imports amounted to over $5 billion and their exports to over $4.3 billion. The Netherlands traditionally has a passive balance of trade with between 80 per cent and 90 per cent of imports covered by exports. Over two-fifths of the national product is sold abroad. In 1961, exports rose by an estimated 8 per cent and imports by 13 per cent over 1960 figures. On a per capita basis Dutch exports in 1960 amounted to $350 compared with $403 for the BLEU and $108 for the United States. The best customer is West Germany, with the BLEU in second and the United States in sixth place. Trade with bloc countries increased in 1961, especially with Eastern Europe, where East Germany and Czechoslovakia are the best customers. Major export items included base metals, electrical equipment, machinery, chemicals and foodstuffs.

Since the end of World War II the Dutch have steadily increased their industrial production. The industrial growth index rose in 1960 to 157 as against 100 for 1953 and the *GIP*[1] for 1960 was estimated to have increased by 13 per cent over 1959. Among heavy industries coal production, mainly in Limburg province, has risen to 12.5 million tons per annum. The Dutch have also tapped petroleum resources which now provide for one-quarter of the country's needs.

By contrast, the textile industry was slow to progress. Chemical production, too, increased but slightly after an unparalleled expansion in the decade after 1950. One of the big firms, Philips—largest of all Dutch plants—is also the leader in the electrical industry. The latter makes up 11.7 per cent of all Dutch exports and is the most important single sector.

For many centuries agriculture, alongside of commerce, formed the backbone of the Netherlands economy. Today less than 11 per cent of the working population is engaged in agriculture as compared with 41.6 per cent in industry and 47.4 per cent in commerce and services. Dutch farms are generally small. More than 50 per cent have less than 10 acres and 90 per cent less than 50. Yet they are very well managed and the many cooperatives have added to the efficiency of production and distribution. Farm

[1] Gross Industrial Product.

exports for 1960 were valued at around $1,158,000,000 and constituted one-third of the total agricultural production. Altogether foodstuffs still account for nearly 40 per cent of all Dutch exports.

The famed dairy products outrank all other agricultural produce by far. Over 6.5 million tons were produced in 1960 with a further increase in 1961. Sugar beets and wheat yielded record crops in 1960, but grain production fell off in 1961. Fisheries are an important branch of the food industries.

In spite of its expansion, Dutch agriculture faces a number of problems. One is competition with other E.E.C. countries. Dutch farmers demand specific German commitments on a rapprochement of price levels and concessions on dairy products. Another problem is international trading in surpluses at very low prices. A third is the accumulation of such products as butter whose storage is a temporary and unsatisfactory measure.

The Belgian Economy

The Belgian economy has followed a very different course. In the immediate post-war years it was regarded as so sound that it did not receive as much Marshall aid as other countries. Belgium prospered in an atmosphere of neo-liberalism more than most other countries at that time. Yet gradually most of these advantages have either disappeared or diminished. The GNP over the last decade has only increased from 2 per cent to 3 per cent annually as against the 4.8 per cent for the Netherlands. The balance of payments situation deteriorated. Export increases in 1961 were far lower than in the Netherlands. Private consumption hardly rose in 1961.

A number of reasons underlie this slowed rate of progress. First, a considerable part of the Belgian industrial plant is antiquated. This is largely the ironic result of the absence of large-scale destruction in World War II. Second, the fiscal structure of the Belgian state is in need of reform. Third, the long struggle between Flemings and Walloons, the two ethnic groups that make up the Belgian population, has been intensified with both sides claiming to be discriminated against by the government.

Specific circumstances have further burdened the economy. Foremost among these is the decline of the coal industry, once a major asset of the Belgian economy and now a major weakness. Moreover, the country was hard hit by the general strike of late 1960 and early 1961 which resulted in losses estimated at over $200 million. On top of these predicaments came the loss of the Congo. While the share of the Congo in the Belgian GNP of $11.9 billion has been not more than from 4 per cent to 6 per cent and while only from 3 per cent to 4 per cent of Belgian exports went to the Congo before its independence, total investments amounted to nearly $4 billion. Budget revenue lost with the Congo is about 5 per cent. But the most incisive loss was that in the balance of payments which up to 1960 was favorable due to the annual surplus realized by Congo products, among which strategic minerals were prominent.

Considering the number and magnitude of these setbacks, it is remarkable that the Belgian economy has done as well as it did. The budget was greatly strained as a result of the loss of the Congo and the great strikes. Borrowing by the government increased the national debt by nearly 25 per cent since 1956. However, stringent measures decreased the debt slightly to just over $8 billion by the end of 1961. Although comprehensive fiscal reforms have yet to be carried through, a beginning has been made.

The domestic upturn, in spite of the Congo and strike crises, was facilitated by a series of laws passed in July, 1959. They encouraged creation of new industries in distressed and underdeveloped regions by offering such inducements as tax exemptions and credits without interest payments. In 1960, a Five Year Development Plan was drawn up in order to diversify Belgian industry. Stronger government interference in a country traditionally given to laissez-faire has kept prices stable while wages were increased slightly. Finally, unemployment has been reduced to some 70,000 completely unemployed out of a work force of nearly 3.5 million. Of this force, 46 per cent are employed in industry, 45.5 per cent in services and commerce, and only 7.9 per cent in agriculture.

Industry has been the core of Belgium's economy since the creation of the state in 1831. Two-fifths of the national income is supplied by industry. Industrial production

increased by an estimated 7.5 per cent in 1961 and 10 per cent in the previous year. Until after World War II the industrial heartland was in the Walloon provinces to the south. But the decline of coal production, the only major natural resource, had far-reaching consequences and led among other causes to a weakening of the dominant economic position of *Wallonie*. The Brussels *arondissement,* center of commerce and banking, would be a third component in the new political and economic structure. While the Walloons decry the industrial and demographic draining of their provinces, the Flemings object to inequality on such issues as wages which generally are still higher in Walloonia.

Coal production is the prime example of the difficulties that have beset Belgium. The heart of the coal-producing country—the Borinage—has perceptibly slowed its beat over the last decade and economic sclerosis has affected neighboring areas. The primary factors which contributed to the decline of the Walloon coal industry were the thinness of seams, the depths of shafts and the faulted structure of deposits. Ever increasing costs made production less and less profitable and competitive. This became specifically the case after the Coal and Steel Community began to function.

After 1957, 30 marginal mines were closed and nearly one-third of the 100,000 miners laid off. The government undertook to restrict production and cut down pithead stocks. In return the C.S.C. has generously contributed to subsidies and relocation funds. It has insisted, however, on partial isolation of Belgian coal from the E.E.C. and on a two-thirds cutback of Walloon production by 1963. Belgian coal production has now been reduced to slightly over 21 million tons p.a. but still amounted to 14 per cent of total national production. The share of the Borinage coal has fallen to 9.5 per cent. Conversely, the Flemish coalfields of the Kampen area have increased their share to 45.5 per cent which has caused resentment among Walloons.

The steel industry has also experienced some difficulties. After a boom in 1960, production has levelled off to some 7 million tons. Nevertheless, the basic metallurgical industries still accounted for 16 per cent of the total national production and employed more people than any other industry. New mills are being set up, including the Zelzate complex in Flanders.

The textile industry, oldest in Belgium and traditionally centered in Flanders, constitutes today with 14 per cent one of the leading sectors of the economy. Yet except for the linen industry, it has declined in importance. By contrast, the diamond industry at Antwerp has resumed its leading place in the world. The ancient glass industry slowed down considerably after a banner year in 1960. Again, a number of plants have moved from the Walloon to the Flemish regions as also have paper mills, all of the lead and part of the zinc industries. The chemical industry, fairly evenly distributed throughout the country, accounted for about 9 per cent of Belgium's exports. A nuclear reactor is in operation at Mol, center of Belgian nuclear power research.

Exports form an important part of the economy and nearly 40 per cent of the industrial production is exported. But Belgium as well as the Netherlands imports more than it exports. The Dutch are Belgium's principal customers followed by West Germany with the situation reversed in the case of imports. The United States is in fourth place as a customer but exports less to Belgium than to the other E.E.C. countries. Nearly 350 United States firms now have offices in Belgium and foreign investments total more than $100 million. Exports to Communist Bloc countries amounted to about 3 per cent of the total and imports constitute less than 2 per cent. Among the most important export items are basic metals, textiles, machinery, chemicals and mineral products. Essential imports include iron ore, cotton, and fuel without which the Belgian economy could not operate. The growing volume of trade is mainly handled by an efficient railroad system—the densest in Europe—and road and water transportation. Antwerp ranks after Rotterdam as the busiest port in Europe.

Agriculture plays a diminishing part in the economy. Its share in the national revenue was about 6 per cent in 1961 and is expected to drop to 4 per cent by 1970. Reduction in numbers has led to the disappearance of many marginal farms. The average farm

today has only around 15 acres but the over-all yield has increased due to more scientific methods and mechanical equipment. Almost 85 per cent of the country's needs are covered domestically. Belgium is nearly self-sufficient in meats and dairy products. Livestock raising is the most important part of agriculture although the breeding of the famous draft horses has declined. Grain, beets and potatoes are the principal crops.

The Luxembourg Economy

Luxembourg is by far the smallest of the three Benelux countries but also the most affluent. Its standard of living is one of the highest in Europe and when pro-rated on the GNP is close to $1,200 on a per capita basis. The nominal per capita income has almost doubled since 1948. The GNP amounted to $480 million in 1960, a growth of 10 per cent over 1959. One major problem facing the economy is the lack of qualified labor. A good number of foreigners have found employment in construction, mining, and metal industries.

Much of the economic well-being of the grand-duchy depends on its iron ore production and steel industry. Extraction of the highly phosphorous *minette* is now around 7 million tons and provides for half of the needs of the iron and steel industry. The latter represents more than 60 per cent of the total production of the country and around 85 per cent of its exports. The steel industry has flourished as never before due to integration within the E.E.C. The E.E.C. absorbed in 1960 67 per cent of the Luxembourg steel production of nearly four million tons as against 59 per cent in 1959. The figure remains about the same for 1961 while Belgium's share decreased to seven million tons and that of the Netherlands rose to two million tons.

So essential is steel production to the Luxembourg economy that its 5 per cent growth over 1960 was equal to the 5 per cent growth of the GIP. At the same time the steel and iron industries are almost entirely dependent on international market conditions. Over 50 per cent of the basic metals production is exported to West Germany; Belgium accounts for 25 per cent and the Netherlands for about 12 per cent.

Other industries play a comparatively minor role. Among the strong medium industries are beverage and tobacco manufacturing. The small chemical industry and non-ferrous minerals have also done well. By contrast, textile and furniture industries have generally declined. The last of the leather factories closed last year, ending an old Luxembourg industry.

Agriculture plays a larger part in the Luxembourg economy than in the other Benelux countries. Nearly 21 per cent of the working population is engaged in agriculture and viticulture. Yields in 1961 were satisfactory in both sectors. Among the major problems facing agriculture are land consolidation, soil deficiencies, and surplus storing. The surplus is largest in wheat and somewhat smaller in dairy and butter products. Wheat and rye production was cut from 15 per cent to 20 per cent in 1961. The dairy surplus was effectively reduced when the United States armed forces in Europe contracted for a year's supply. Wine-growing holds a special, protected position and the 1961 vintage was expected to be good.

One other sector of the economy proved highly remunerative—tourism. The small country possesses many picturesque places of attraction and a beautiful countryside. Even in 1960, when the weather was inclement, over 2 million foreign cars entered the principality. Hotel revenues amounted to over $8.8 million in 1960 and were anticipated to increase by 15 per cent to 20 per cent in 1961.

Conclusion

The Benelux economies enter the immediate future with considerable optimism. As integration progresses in Western Europe, they will progress. Barring a dramatic slump in key industries such as steel, steady progress seems assured with the probable exception of textiles. The problem of labor shortage will become more acute. Internal differences such as between Flemings and Walloons and external differences between the BLEU and Dutch fiscal structures will continue. Yet accords will prove stronger than discords and within the treble framework of Benelux, E.E.C., and O.E.C.D., the low countries are likely to flourish.

"If the United States is seriously interested in promoting European unity, we should be willing to pay the relatively small price involved in accepting some discrimination against United States exports, and making some adjustments in our pattern of trade," writes this economist. "That this will result in any serious decline in our total exports is most unlikely."

The United States and a United Europe

By Emile Benoit

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The perils facing the United States the day after the attack on Pearl Harbor were insignificant compared to those confronting us today. Yet these new dangers—from the development and diffusions of weapons of mass annihilation, from the "revolution of expectations" and the population explosion in the underdeveloped countries, from the rapid spread of totalitarian ideologies, and from the declining margins of United States industrial and scientific superiority—have been far less easy for the public to understand and respond to than were the more explicit challenges of "war."[1]

Hence the predominant mood of complacency (punctuated by somewhat hysterical fits of anxiety) which has characterized American life during much of the 1950's. Few politicians have had the courage to challenge too explicitly this national mood, or to make clear, even to themselves, the difficult changes in our habits and attitudes that will be required to cope effectively with the real problems.

One of the major elements in a solution is likely to be the gradual drawing together of the Atlantic nations and their allies in other parts of the world. In this process the integration of Europe appears to be a first and indispensable step. "Integration" may here be understood as involving economic unification by the removal of barriers to trade, investment, and migration, the harmonization of economic policies and standards, the increase of economic interdependency, and the reduction of inequalities and differences among the parts being integrated—with the proximate objective of preparing the way for some type of political unification.

The European Economic Community (E.E.C.), or "Common Market," is obviously an event of exceptional historical importance. It is not only a fresh indication of Western

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[1] A more detailed specification of these problems would be out of place here. See, however, by the present author: "An American Foreign Policy for Survival," *Ethics, International Journal of Science, Political and Legal Philosophy*, July, 1946; "The Conditions of Disarmament," *Antioch Review*, Fall, 1955; "Competitive Coexistence, Can We Win?," *ibid.*, Summer, 1956; "Economic Aspects of the Western Alliance," *Journal of International Affairs*, April, 1958.

society's continuing vitality and capacity to innovate. It is also an attempt to reverse the deeply flowing currents of nationalism, in a world which has suddenly become too small for unrestricted national sovereignty to flourish without grave risk of destroying human civilization, if not indeed the human race. We are rapidly learning—though not perhaps rapidy enough—that not only is "no man an island," but no island (even Britain) is henceforth truly an island, and no continent (even North America) can remain an island either.

It is an apparent paradox that the formation of the European Economic Community initially occasioned a good deal of European "disunity." Indeed, the first years of its existence have been dominated—to an extent completely unanticipated by its designers—by the problem of reaching an accommodation with its immediate European neighbors. With the British application of July 31, 1961, to join the Common Market an accomplished fact—and with applications for membership or associate status also in from most of the other members of the "Outer Seven"—we may now hopefully look forward to a solution of this vexing problem, although much patient negotiation will be required, and the outcome is hardly a foregone conclusion.

Already, however, it has become clear that a solution of the intra-European problem would only shift the difficulties to a higher level, raising very acutely the question of how an integrated Europe will be related to its non-European allies of the Free World, and especially to the United States. The just-announced E.E.C. agreement in agriculture removes the last major block to entering the second stage of the Common Market program, which is effectively the point of no return. It will also expedite consideration of the British application for entry, which may well turn on the problem of how Britain's dependence on Commonwealth agricultural imports, and its domestic farm policies, may be reconciled with E.E.C.'s agricultural program. It is high time, therefore, that we clarify our policies on European integration while we still have some chance to influence it, and to prepare our adjustment to it.

The American support of European unification which became prominent during the Marshall plan, while occasionally naive in its time perspectives and in its inadequate comprehension of the force of surviving nationalism in Europe, did nevertheless make an important contribution. The establishment, on the basis of a United States suggestion, of the Organization for European Economic Cooperation, to help allocate United States aid, contributed greatly to European unity. By its means, and by means of its affiliated financial agency, the European Payments Union, European trade broke out of the straitjacket of bilateral trade agreements, successively removed quantitative restrictions on European trade, moved decisively toward convertibility of national currencies within Europe, and rapidly expanded the volume of intra-European and world trade. Possibly even more important in the long view were the annual economic reviews established by the O.E.E.C. to justify aid allocations, and E.P.U. drawing rights. These reviews provided invaluable experience in subjecting national economic policies to constructive mutual criticism and in forging a considerable degree of consensus among European governments and central banks on the need for parallel expansionist policies of full employment, and rapid productivity growth, with, however, restraints on excessive demand leading to inflation and balance of payments deficits.

The American Contribution

United States motives in pushing European integration were at first of a short range and isolationist character: namely, the desire to speed up European recovery so as to be able to discontinue the aid program, and the desire to make Europe sufficiently powerful so that major United States military contributions to the defense of Europe would no longer be necessary. In fact, Europe fully recovered economically without proceeding very far in the direction of economic integration which many had believed an essential precondition of recovery. And with the defeat of the European Defense Community project and with the gradual recognition of the implications of the revolution in military technology, the illusion was soon dispelled that Europe could in the near future hope to defend itself solely on the basis of its own military resources.

European integration nevertheless developed its own momentum. The European Coal and Steel Community of the Six had in 1951 pioneered a new type of economic association, with a moderate degree of supranationality, which proved to be a powerful engine both of economic progress and of political unification. With minor modifications this model was applied in the Treaty of Rome, signed March 25, 1951, which planned over a 12 to 15 year period for a definitive merging of the same six economies, to form a European Economic Community (or "Common Market") with the further aim of a closer political association between the members.

United States policy has been, with minor waverings, highly favorable to the new organization. The overriding purpose in American eyes was the political strengthening of Europe which would make Europe a stronger and more resolute partner in the defense of freedom. Some temporary uncertainty appeared in the United States position in late 1959 and early 1960 at the time of the dispute between the Six and the Seven over the proposed acceleration of the E.E.C. tariff timetable. For a time it appeared as though United States attempts to mediate might involve a withdrawal of support for the Common Market. In the end, however, we backed the position of the Common Market, having obtained from the E.E.C. a qualified promise to agree to a 20 per cent reciprocal reduction in the E.E.C. outer tariff at the forthcoming 1960–1961 GATT tariff negotiations. The fruits of this promise are to be announced early in 1962 in a wide-ranging list of reciprocal 20 per cent tariff reductions negotiated between the United States and the Common Market in recent months.

United States intervention in the Six versus Seven dispute was prompted not only by fears of the disruptive political effects on Nato of widening hostility and a possible trade war between the two European groups, but also by growing fears for our own trade. While the theoretical possibility of some damage to our exports arising from tariff discrimination incidental to a European Customs Union had always been apparent, it was only after the serious deterioration in the United States balance of payments in 1958 and 1959, with its massive gold drain, that this possibility became a serious concern of the government. The potential loss in exports, which could be tolerantly contemplated when our gold reserves seemed invulnerable and when the problem of the dollar gap appeared to many as perennial, looked a good deal more alarming in the context of a dollar glut and a United States balance of payments crisis. There was also a potential danger of specific mutual tariff concessions between the groups which would discriminate in important ways against United States and other outside exporters, without, on the other hand, contributing much to European unity.

With the application by the United Kingdom to join the Common Market and the probability that most of her European Free Trade Associates of the "Outer Seven" would ultimately wind up as members and "associates" of the E.E.C., concern about the probable impact on United States exports has grown. The danger is not that European tariffs will rise: on the contrary the outer tariffs of the most populous members (Italy, France and the United Kingdom if it joins) will tend to fall,[2] and the recent GATT negotiations will have achieved some further general decline in the outer tariff. The real danger is tariff discrimination, i.e., European producers will ultimately sell to each other with *no* tariff barriers while the United States and other outsiders will continue to have to surmount a tariff barrier.

"Trade Expansion Act"

In the effort to minimize the possible effects of such tariff discrimination, the United States has continuously urged that these tariff barriers be lowered. President Kennedy, in his State of the Union Message on January 11, stated that he plans to send a new bill to Congress, a five-year "Trade Expansion Act." The President is seeking the gradual elimination of tariffs between the United States and the Common Market on those items in which the two areas supply 80 per cent of the world's trade. These, he

[2] A slight complication is involved in the case of Germany owing to the fact that tariffs on many industrial items had been reduced unilaterally prior to the coming into force of the Treaty. Thus, on a large number of items German tariffs will be raised from present levels although declining or remaining relatively stable relative to the established base level for the Common Market tariff adjustments, namely January 1, 1957.

added, are items in which we have shown that we can compete successfully abroad as demonstrated by the fact that we export more of them than we import. For other traded items, the bill will allow gradual reductions in tariffs of up to 50 per cent; it will permit bargaining on tariffs by broad categories rather than item by item. It provides also for positive readjustment assistance to firms and their employees that suffer from the competition of imports.

The President's request for a basic change in the Reciprocal Trade Agreement powers and procedures will be applauded by most economists who believe in an expansion of trade on the basis of comparative costs, and who realize that the existing restrictions arising from the peril point provisions and the escape clause provisions of our present tariff law pose serious limitations on the possibilities of worthwhile additional reductions. It is also widely recognized that European integration will so greatly reduce the number of important tariff units for bargaining purposes as to make it doubtful if the present method of multilateral negotiation under the GATT will continue to be operable. There is a widespread feeling, too, that better methods for aiding industries injured by imports are needed than are provided by our present technique of revoking tariff concessions previously made.

While approving of the goal, some of us may be inclined to criticize the line of argument put forth in its support. In the first place, it is quite unlikely as is implied that the tariff preferences arising from the present structure of the projected European Community outer tariff would eliminate any really large part of United States trade with Europe. In a preliminary and rough calculation, I estimated that the diversionary effect, even with the United Kingdom and the other members of the Outer Seven joining the Community, would probably not exceed \$400–\$800 million.[3] This figure would be further reduced by the offset arising from what I call "counterdiversion," i.e., some non-European markets which European countries would otherwise have held or gained, they will now lose as a result of diverting their trade to each other. (This assumes, of course, that approximately full employment will be maintained, that Europe's productive capacity will be limited, and that growth in internal demand will prevent an unlimited transfer of goods to the export industries.) There will be also an important offset arising from the accelerated rate of growth of the European economy which should lead to absolute increases in imports, even if Europe's relative dependence on imports is gradually reduced—and historical experience gives no warrant for assuming that this will necessarily happen.

Competitiveness Is Crucial

The crucial factor, however, will be the extent to which the United States can maintain or improve its relative competitiveness. The idea that a tariff handicap *ipso facto* makes it impossible to export is obviously absurd; we are presently exporting a very large volume of goods to Germany over the German tariffs in competition with German producers who are free of these tariffs, to France over the French tariffs in competition with French producers who are free of these tariffs. In the Common Market we shall simply have a larger number of competitors who are free of tariff barriers to contend with, but the tariff barriers will be no higher on the average than they have been in the past, and the kind of goods being bought will more and more be the type of mass-production and mass-consumption items in which United States firms have specialized.

It should be noted that if United States producers are seriously uncompetitive, then the Administration's argument that a reciprocal lowering of tariff barriers would improve our balance of payments may not hold water. In such a case our imports might rise even faster than our exports, since American producers could then be less able to reap the benefits of reduced tariff discrimination against our products, and be less able to resist the increased flow of imports permitted by our own tariff concessions.

How competitive *are* United States products? In my analysis of the relative production costs of European and American goods, I found much evidence indicating that our relative competitiveness of industrial (but not agricultural) goods had declined since 1953. I also found some evidence, of a

[3] See Emile Benoit, *Europe at Sixes and Sevens*, Chapter 4, "The Dollar Crisis and U.S. Competitiveness," p. 174.

rather inconclusive sort, that on an absolute basis we were no longer competitive with European products in a number of important items in which we had previously been highly competitive.[4] Somewhat similar conclusions were reached in a recent National Industrial Conference Board Survey, which found that 64 per cent of a sample of United States affiliates in the Common Market, and 74 per cent in the United Kingdom now have lower unit costs than the parent companies in the United States.[5]

The decline in our industrial competitiveness has not arisen as a result of a more rapid rate of wage increases in the United States; in fact, wages have risen more slowly here than in Europe in recent years. Rather, our competitive decline must be attributed primarily to a slower rise in productivity compared to the very rapid increases achieved in Europe since 1953. This, in turn, seems to be related to the fact that our tight money policies and our restrictive fiscal policies (we ran a $6.7 billion surplus in the cash budget in 1956–1957) curtailed our rate of growth and led thereafter to a persistent underutilization and aging of industrial capacity, and consequently a slower reduction in overhead unit cost.

Conceivably, an economic policy more oriented toward growth may improve our competitive position in the future, thereby rendering a reciprocal lowering of tariff barriers between ourselves and Europe more beneficial to our exports than to our imports. Under these conditions, but perhaps only under these conditions, a general lowering of tariff barriers would make sense as a contribution to our balance of payments problems.

The above remarks do not, of course, apply to the agricultural field in which we have made astonishing productivity gains in recent years, and in which our costs are, on many important items, among the lowest in the world. It should also be remembered that, aside from balance of payments considerations, a lowering of tariff barriers may confer real benefits in leading to greater specialization of production along lines of comparative advantages, as well as in stimulating improved methods and cost reductions through the pressure of the additional competition.

It is, nevertheless, unfortunate that it is believed necessary to "sell" a desirable program of tariff reductions by exaggerating the dangers which the Common Market may create for our exports and implying that if we leave any significant tariff barriers between the United States and the Common Market we would "cut ourselves off from our major allies," and "endanger the unity of the West."[6] In fact, existing tariff barriers have not prevented the West from achieving whatever unity it now has, and the Common Market will not raise these barriers though it will make them harder to surmount. In any case, it appears unrealistic to expect that European tariffs can soon be eliminated or reduced to negligible proportions; indeed, the political objectives of European integration might be seriously imperilled if this were done. While the Common Market is willing to engage in further reciprocal tariff reductions, it will not forget that the retention of a tariff barrier around a customs union is an important asset in driving the participating nations to trade more intensively with one another and through their intensified reciprocal dependence to forge a basis of political unity. It is on this foundation, indeed, that the strategy of the Common Market has been conceived.

It was the insistence on maintaining a common external tariff that caused the breakdown of negotiations on a European Free Trade Area between the Common Market and other nations in Europe. Having with great difficulty won this fight, the Common Market is unlikely now to relinquish the fruits of its victory by negotiating away most of its tariffs. The entry of Britain and other members of the Outer Seven into the Common Market will, if it occurs, probably enhance the difficulty of the European Economic Community in achieving its aim of political unification. The Outer Seven countries were precisely the ones that had the least willingness to merge their destinies with the other European countries and abandon their complete independence of action; their presence inside the Community will probably

[4] "Europe at Sixes and Sevens," *loc. cit.*

[5] Theodore Gates and Fabian Linden, *Costs and Competition*, The Conference Board, Studies in Business Economics, No. 73, August, 1961.

[6] President Kennedy's State of the Union Message, January 11, 1962.

act as a severe drag on its evolution in the direction of political unity. For this reason, the retention for some time of a substantial tariff barrier around Western Europe appears indispensable to the achievement of its political objectives.

If the United States is seriously interested in promoting European unity, we should be willing to pay the relatively small price involved in accepting some discrimination against United States exports, and making some adjustments in our pattern of trade. That this will result in any serious decline in our total exports is most unlikely. The first steps in tariff discrimination have not reduced our exports one bit: on the contrary our exports to Europe have reached new highs. The European Economic Community has repeatedly indicated its confidence that trade with the outside world would rise, and its willingness to make tariff adjustments whenever it could be shown that the tariff preferences incidental to the formation of the Common Market have created positive damage to the trade of outside countries.

I have suggested that it would be desirable for the Common Market to go one step further and to put these general assurances into a more formal undertaking which I call a "no injury guarantee."[7] Such a guarantee would undertake to provide special tariff concessions to any country that could prove before a specially-appointed GATT tribunal that its total exports to the Common Market had declined as a result of tariff changes (or agricultural or other policies) incidental to the formation of the Common Market. While the Common Market authorities would much prefer to retain their full freedom of action, I have a feeling that a real possibility exists that they might consent to the acceptance of some such formula if this were requested strongly by outside nations.

A Misleading Argument

There is one further aspect of the Administration's argument for eliminating U.S.-European tariff barriers which requires comment because of its misleading character and dangerous implications. This is the argument that, unless Europe's outer tariffs are reduced, not only will United States exports be hindered, but there will be a flight of United States capital seeking to make direct investments in Europe. In such a case, "Industries will move their plants and jobs and capital inside the walls of the Common Market and jobs therefore will be lost here in the United States . . . jobs will be endangered by the movement of our capital to Europe."[8] "Are we going to export our goods and our crops or are we going to export our capital? That is the question we are now facing."[9]

This way of visualizing the question is, I submit, seriously misleading: capital exports *are* in large part goods, namely capital equipment, and the production of these goods does provide jobs as well as any other kind of production. The overtones of such statements are alarming in that they imply a negative valuation placed upon our direct investment abroad, a valuation which is made quite explicit in the Treasury's proposal to tax the profits of United States-owned foreign subsidiaries as they are earned and before they are returned to United States taxpayers, with the intention of raising the tax burden and positively discouraging United States direct investment—at least in developed areas. This negative evaluation is based on the assumption that such investment burdens the balance of payments and exports United States jobs. Is this correct?

What seems to be wrong with this line of thought is that it overlooks the very large amounts of exports which are intimately linked with the making of such direct investments. In a recent study, which I helped to conduct, of the direct foreign investments of 19 American manufacturing corporations, accounting for upwards of 5 per cent of all United States direct manufacturing investment abroad, it was found that the companies in this sample had exported capital goods and materials for use by their foreign subsidiaries to the amount of $676 million between 1957–1960. This does not include large additional amounts of exports for resale by the subsidiaries and other exports indirectly attributable to the activities of these subsidiaries.[10] The net effect on the balance of payments of these investments was highly positive.

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[7] *Europe at Sixes and Sevens,* pp. 250 ff.
[8] President Kennedy's State of the Union Message, January 11, 1962.
[9] President Kennedy's speech in Miami, December 7, 1961.
[10] Statement of H. J. Heinz II, *Hearings before the Committee on Ways and Means on the President's 1961 Tax Recommendations,* Vol. 4, pp. 3185 ff.

In a study subsequently released by the Department of Commerce,[11] covering about four-fifths of United States manufacturing direct investment abroad, it was found that the parent companies sold to, or sold by means of, their foreign subsidiaries $2.1 billion worth of exports in 1959, and $2.7 billion in 1960. These amounts are extremely large; when added to the dividends earned by the foreign investments and the management fees and royalties collected from licensing arrangements with these subsidiaries, the totals are far greater than the capital outflow directly invested in these subsidiaries. There is, consequently, very good reason to believe that, contrary to widespread assumptions, United States direct investment—when viewed in the light of its favorable effects—does not in fact burden the balance of payments, but, on the contrary, makes a very important contribution to it. These totals, moreover, do not include the considerable further stimulus to our exports resulting from the fact that, as our direct investments help to raise the level of economic activity and income abroad, they indirectly serve to increase the demand for *other* United States products, since a substantial (and relatively stable) proportion of European income is expended on imports.

Lesson of Experience

These theoretical expectations are fully supported by our actual experience so far. Our export totals in 1961 were the highest on record, and the expansion was most evident in precisely those areas, especially Europe, where the rate of direct investment has been rising most rapidly. While "internal" trade between the members of the Common Market rose most rapidly, imports from the United States and other outsiders also showed an excellent rate of growth—despite the existence of some tariff discrimination.

If the objective of United States policy is to avoid a split in the Western world and to bring about as close an economic relationship as possible between the United States and an integrated Europe, then the emphasis behind the Administration's current trade program seems particularly ill-advised. The maintenance of moderate tariff barriers between Europe and the United States need not impede their economic cooperation and close political alignment. On the other hand, an expansion of trade between them will not create as fundamental and durable bonds as will a large expansion of United States direct investment in Europe, and hopefully, the expansion also of a return flow of European investment to the United States.

Direct investment, particularly when it takes the form of joint ventures with local capital, involves the most intimate intermixing of commercial interests and the best possible groundwork for developing a spirit of political and social unity. In this connection, it should be noted that complete mobility of capital between members is one of the fundamental objectives in the European Economic Community and one on which substantial progress has already been made. If, therefore, it is our national goal to provide a setting in which something like an Atlantic Union may some time in the future receive favorable consideration, we should do everything in our power to stimulate international investment between members and we should avoid, by all means, using arguments which support the popular misconceptions—that such investment is responsible for domestic unemployment. Such ideas are particularly inappropriate in the United States where dependence on foreign trade and investment is, at best, a minor factor in domestic employment. (From 1957–1960, our commercial exports were only 3.7 per cent of Gross National Product, and our net outflow of capital for direct foreign investments only 2.1 per cent of our gross domestic investment.)

Attributing United States unemployment to foreign investment is not only factually wrong, but it may do a major disservice to the public if it distracts attention from the failure of government to discharge effectively its primary obligations in the domestic field.

One final question must be posed and it is essentially a political question. Do we actually want the European political unification which is the implicit objective of European economic integration? Or ought we to seek merely a closer working relationship with the separate European nations? Alter-

(*Continued on p. 192*)

[11] A summary of which was sent to the Committee on Ways and Means by Under Secretary Gudeman on June 22, 1961.

Received At Our Desk

THE EUROPEAN COMMON MARKET: An Analysis of Commercial Policy. By Isaiah Frank. (New York: Frederick A. Praeger, 1961. 324 pages, bibliography and index, $8.50.)

The ability of the Western world to achieve unity—political, military and economic—may well be the most important factor determining the security of the Atlantic Community. In recent years, Western Europe has undertaken a number of ambitious plans, designed to promote economic integration, e.g., the Coal and Steel Community, Euratom and the Common Market. The success of these regional economic arrangements could induce more comprehensive moves toward increased political unity.

Isaiah Frank, currently serving in the Office of International Financial and Development Affairs in the Department of State, has explored many of the far-reaching problems of commercial policy that were faced by the European Common Market during its early years. He notes that the six member nations had a number of major hurdles to overcome before they could begin functioning as a unit: "Considering the precedent that the Treaty [the Rome Treaty setting up the European Economic Community] was setting and the vital stake of other countries in trade with members of the Community, it might well have been expected that the Six would have to face up to a full-scale defense in the GATT of the Treaty provisions bearing on the interests of third countries. But in addition, the Six had to develop a policy with respect to a broader association with the rest of Europe in a free trade area; it had to formulate its position on a proposal for a major round of new tariff negotiations on a world-wide basis; and it had to re-think its whole approach to the problem of quantitative restrictions as a consequence of the dramatic shift in the world trade and payments situation and the adoption of external convertibility at the end of 1958."

The study is scholarly and comprehensive. It treats the various problems of quota restrictions, tariffs, and trade problems within a broad political context. For the serious student and specialist, Mr. Frank's pioneer work will prove invaluable. A.Z.R.

MANAGING AMERICA'S ECONOMIC EXPLOSION, Edited by Dan H. Fenn, Jr. New York. McGraw-Hill, 1961. 269 pages, $6.00.)

Here again is a volume devoted to the task of recording for posterity the record of one of the innumerable conferences on public and business affairs that pervade the American scene today. It contains discussions by business executives, economists, and so forth, at the Thirtieth Annual Harvard Business Conference on such widely diverse topics as the broad issues of economic growth, company organizational problems in planning product lines, company organizational structure for long-range planning, new trends in marketing, how to meet foreign competition, how an ambitious businessman gets started, and the bases for promoting executives. This very range of topical material, indeed, constitutes a chief difficulty with the volume.

Essentially this is a series of discussions of current business management problems, with some "think big and broadly" items used as wrapping. To have been an actual participant in this affair, with all the lively controversy that was doubtless generated, was probably most stimulating, but in print the conference is somewhat dull. Fortunately there are occasional rewards, e.g., Keyserling rebutting Galbraith's *The Affluent Society,* Professor Schultze attacking the inflation

(*Continued on p. 181*)

Current Documents

THE COMMUNIQUE ON THE ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

On December 14, 1960, the United States, Canada and the members of the Organization for European Economic Cooperation[1] agreed to create the Organization for Economic Cooperation and Development, to replace the O.E.E.C. The complete text of the O.E.C.D. Communiqué issued by the ministerial meeting on December 13[2] is reprinted below:

Canada and the United States today [December 13] joined with the eighteen European countries, members of the Organization for European Economic Cooperation (O.E.-E.C.), in agreeing to sign on December 14 a convention setting up the Organization for Economic Co-operation and Development (O.E.C.D.) which will take the place of the O.E.E.C. Ministers of the twenty countries, who met in Paris on the 13th of December, 1960, also approved a report setting forth the activities and structure of the O.E.C.D. The representatives of the European communities, who have taken part in the negotiations, participated in the meeting; also present were the Secretary-General of the E.F.T.A. [European Free Trade Association] and observers from the G.A.T.T. [General Agreement on Tariffs and Trade], I.B.R.D. [International Bank for Reconstruction and Development] and I.M.F. [International Monetary Fund].

With the recovery and progress of the European economy, sustained by the generous aid of the United States as well as of Canada, and furthered by the cooperation established within the O.E.E.C., the European countries are now in a position to face, in full and close cooperation with Canada and the United States, the important new tasks and the broader objectives of today.

These objectives are set forth in the convention in these terms:

To achieve the highest sustainable economic growth and employment and a rising standard of living in the member countries while maintaining financial stability and, thus, to contribute to the development of the world economy; to contribute to sound economic expansion in member, as well as non-member, countries in the process of economic development; and to contribute to the expansion of world trade on a multilateral non-discriminatory basis in accordance with international obligation.

The convention provides for the establishment of a council, the supreme body of the organization, which will have the power to take decisions and make recommendations by mutual agreement of all the Members. In addition, the ministers agreed on a committee structure to assist in implementing the aims and carrying out the activities of the organization.

The O.E.C.D. will extend and strengthen the O.E.E.C. practice of consultation on the economic situation and policies of member countries. It will pay special attention to the international effects of national policies, with a view to establishing a climate of mutual understanding conducive to the harmonious adjustment of policies. These consultations will be a major activity in pursuing the objective of economic growth, essential to enable the member countries to fulfill their responsibilities in the world economy.

The O.E.C.D. will have important functions in the matter of assistance to developing countries. The twenty governments have agreed in the convention to contribute to the economic development of both member and non-member countries in the process of eco-

[1] Austria, Belgium, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and the United Kingdom.

[2] Because of space reasons, the text of the convention could not be included here. The text will appear in the April, 1962, issue.

nomic development by appropriate means and, in particular, by the flow of capital to those countries, having regard to the importance to their economies of receiving technical assistance and of securing expanding export markets. Most of the organs of O.E.C.D. will have a part to play in the realization of this undertaking. The eleven-member Development Assistance Group, set up earlier this year, will, upon the inception of the O.E.C.D., be constituted as the Development Assistance Committee. This Committee will continue to consult on the methods for making national resources available for assisting countries and areas in the process of economic development, and for expanding and improving the flow of long-term funds and other development assistance to them.

In the field of trade the O.E.C.D. will carry out the following functions:

Confrontation on general trade policies and practices at regular interval or when requested by a member; examination of specific trade problems primarily of interest to members; and consideration of any outstanding short and long-term problems falling within the terms of reference of the Committee on Trade Problems established in January 1960.

In addition to these activities, the O.E.C.D. will expand and strengthen those activities of the O.E.E.C. which have proved their practical value for more than a decade and which are to be taken over by the O.E.C.D. in pursuance of its objectives. The O.E.C.D. will thus be able to fulfill the desire of the countries which have created it by becoming the forum in which twenty countries will consult, cooperate closely and where appropriate take coordinated action to meet the economic tasks which face them today.

(Continued from p. 179)

hysteria, Professor W. W. Rostow considering prospective international productivity growth rates, Professor Vernon noting some implications of the U. S. foreign aid program. In the long-run, one suspects that this volume will have more interest for future historians than it has for readers now: at least it will demonstrate one of the fashions of the mid-twentieth century.

ERVIN MILLER
University of Pennsylvania

A SHORT HISTORY OF NORTH AFRICA. By JANE SOAMES NICKERSON. (New York: The Devin-Adair Company, 1961. 252 pages, bibliography and index, $4.50.)

From Neolithic times to the Algerian War—which destroyed the Fourth French Republic and may well destroy the Fifth—the peoples inhabiting the southern shore of the Mediterranean have had a decisive impact on adjacent civilizations. All the more remarkable is the neglect of the area by Western scholars and widespread ignorance of its significance.

Mrs. Nickerson has done much to alleviate an obvious gap in our knowledge. Her credentials are impressive, study at Oxford, life and travel in the region, aid to Hilaire Belloc, staff member of the London *Times*, and author of *The Coast of Barbary*. Her performance is readable, informative and brilliant.

Here, in vivid and admirably concise prose, is the whole story—which no serious student of contemporary world affairs can afford to ignore—of a crucial region whose successive fortunes are sheer drama, to which Mrs. Nickerson does full justice: the Punic Wars, the conquest of Carthage, the long Roman imperium (illustrated with end-paper maps), the first Decline of the West, the *Maghreb* of the Saracen and Ottoman Empires, the Barbary Corsairs, the European conquests, the anti-colonial revolts, and the tangled problems of yesterday and today. The narrative covers the early months of 1961. Mrs. Nickerson sees hope (assuming a settlement of the Algerian War) in the possibility of a North African Federation, linked with Western Europe. Whether her hope will be realized or frustrated, she has made a valuable contribution to what we need to know about peoples who live in sunshine and also in darkness.

FREDERICK L. SCHUMAN
Williams College

A CURRENT HISTORY Chronology covering the most important events of January, 1962, to provide a day-by-day summary of world affairs.

The Month in Review

INTERNATIONAL

African States

Jan. 14—A new African trade union organization, the African Trade Union Confederation, is established by representatives of unions in 20 states and 8 colonies. This group is a rival of the All-African Trade Union Federation formed in May, 1961, in Casablanca.

Jan. 21—The foreign ministers of the "Casablanca states," Ghana, Guinea, Mali, Morocco and the United Arab Republic, reveal that they will not attend a conference in Lagos of foreign ministers of the independent African states because the rebel Algerian Provisional Government is not invited. Tunis is not attending for the same reason. The conference is sponsored by the 19 "Monrovia powers" who include most of the former French territories, plus 7 other states.

Jan. 22—Representatives from 21 African states begin discussions in Lagos. The Libyan delegate has left Lagos in protest against the exclusion of the Algerian rebels.

Jan. 23—Delegates at Lagos agree to invite a representative of the Algerian rebel government to participate in the meetings of foreign ministers but not in the heads of state meetings.

Jan. 25—The 20-nation conference of African heads of state opens in Lagos.

Jan. 30—At the close of the conference in Lagos, African leaders agree in principle to create an Organization of African States.

Berlin Crisis

Jan. 2—U.S. Ambassador to the Soviet Union Llewellyn E. Thompson, Jr., meets with Soviet Foreign Minister Andrei A. Gromyko in Moscow to discuss the Berlin situation and to explore the possibility that a "reasonable basis" for a 4-Power high level meeting may exist.

Jan. 3—A U.S. spokesman declares that the U.S.S.R. has rejected U.S. protests against restrictions on access to East Berlin.

Jan. 7—After a meeting with General Lucius D. Clay, Kennedy's personal representative to Berlin, President John F. Kennedy announces that they have reached agreement on how to deal with further challenges to Berlin.

Jan. 8—Bonn's Press Chief Felix von Eckardt states that West Germany has rejected the Soviet feeler for separate talks.

Jan. 9—Following talks in Bonn between British Prime Minister Harold Macmillan, Foreign Secretary Lord Home, West German Chancellor Konrad Adenauer and Foreign Minister Gerhard Schroeder, a communiqué is issued. The British and German leaders voice agreement that efforts should be continued to seek a basis for talks on Berlin.

Jan. 12—Thompson and Gromyko confer.

Jan. 15—Reliable sources in Bonn report that Gromyko has insisted that Soviet troops be posted in West Berlin as part of a Berlin settlement.

Jan. 26—The U.S. State Department reveals that the Nato countries have agreed to restrict East German travel to Western countries.

Jan. 30—The British Commandant in Berlin, Sir Rohan Delacombe, asks the Soviet commandant in East Berlin for an agreement to restore free movement in Berlin for the commandants of the Big Four Powers.

Disarmament

Jan. 16—The U.S. and Britain suggest that discussion of a nuclear test ban be referred to the 18-nation conference which will

begin discussion of disarmament on March 14.

Jan. 26—The U.S.S.R. refuses to refer the nuclear test ban problem to the 18-nation Disarmament Committee.

Jan. 29—Nuclear test ban talks end after three years and 353 sessions. U.S. delegate Charles C. Stelle says that deadlock over an international control monitor system has caused the U.S. to feel "there is no sensible alternative to a suspension of our meetings." The Soviet delegate charges that the conference "has been wrecked by the Western powers."

International Labor Organization

Jan. 10—David A. Morse withdraws his resignation as director general of the International Labor Organization.

International Monetary Fund

Jan. 8—The International Monetary Fund reveals that a final agreement has been reached providing that ten cooperating nations will lend currencies to one another through the International Monetary Fund to alleviate or prevent major crises in world finance. The United States is a participating member.

Organization of American States

Jan. 18—The Inter-American Peace Committee says Cuba's link to the Soviet bloc and her subversive activity violate hemispheric principles.

Jan. 22—As the American foreign ministers begin a conference at Punta del Este, Central American states suggest to the United States a Caribbean defense pact.

Jan. 24—Seven Latin American states oppose sanctions but denounce Cuba.

Jan. 26—The Dominican Republic asks the foreign ministers of the American states meeting at Punta del Este to apply sanctions against Cuba.

Jan. 31—Cuba is expelled from participation in inter-American affairs by a two-thirds vote in the plenary session of the American foreign ministers conference. The United States and 13 other nations vote to expel Cuba. Brazil, Argentina, Chile, Ecuador, Bolivia and Mexico abstain.

United Nations

Jan. 11—The U.N. Special Fund approves an aid program for 38 "less developed" countries and territories. Forty-eight new projects will receive a total of $42.8 million.

Jan. 15—The General Assembly resumes its sixteenth session. Portugal is urged by Brazil to help Angola achieve self-government. The Portuguese delegation boycotts the Assembly session, protesting U.N. interference with the "so-called situation in Angola."

Jan. 17—Acting Secretary General of the U.N. U Thant asks Indonesia and the Netherlands to talk over the Netherlands New Guinea dispute with him.

Jan. 23—Forty Asian and African nations ask the General Assembly to call on Portugal to "desist forthwith from repressive measures against the people of Angola."

Jan. 24—It is revealed at the U.N. that the U.S.S.R. has asked for 80 key U.N. staff positions for Russian nationals; it has also requested promotions for at least 20 Soviet persons now employed at the U.N.

Jan. 30—The Security Council adjourns without hearing a new Russian complaint against its Congo policy; the complaint is not put on the agenda. (See also *Congo.*)

The Assembly votes 99 to 2 to ask Portugal to stop using "repressive measures against the people of Angola."

West Europe

Jan. 1—Reporting on the United States economy, the Organization for Economic Cooperation and Development suggests that the United States insure a "regular increase" in its budget.

Jan. 14—The Council of Ministers of the European Economic Community votes unanimously to move into the second stage of the common market agreements, after an agreement on general farm policy completes stage one. A common price support fund is established by the six common market nations. Starting July 1, import controls will be lifted on grains, pork, poultry, eggs, and some fruits and vegetables.

Jan. 15—The Common Market agrees on tariff concessions to the United States on

agricultural exports from the United States with a value of some \$600–\$700 million. Other concessions are termed unsatisfactory by the United States and will be the subject of future negotiation.

Jan. 16—The United States and the Common Market agree to reduce their tariffs to increase trade among themselves.

Jan. 18—France offers members of the European Economic Community a new draft of a treaty dealing with political links among members; the treaty avoids any appearance of supranationality. It is rejected by other members of the Community.

Jan. 19—After two weeks of conference, the Atlantic Convention (a group of prominent citizens of the Nato countries) appeals for a "true Atlantic community."

ALBANIA

Jan. 14—It is reported that the official journal of the world Communist movement, *Problems of Peace and Socialism,* has denounced Albanian leaders for joining forces with the opponents of world communism.

Jan. 19—Poland and Albania sign a one-year trade pact. Poland is the only remaining European satellite that has not recalled its ambassador to Albania or asked for the removal of the Albanian delegation in Warsaw.

ARGENTINA

Jan. 12—It is announced that Economics Minister Roberto T. Alemann and Minister of Public Works Arturo Acevedo have resigned.

AUSTRIA

Jan. 2—It is announced that the Constitutional Court, on December 26, 1961, refused to rule on an appeal by Archduke Otto against a government decision barring his return to Austria.

BELGIUM

Jan. 8—A Belgian airliner, en route to Istanbul from Teheran, Iran, is forced to land in Soviet Armenia by Soviet MIG's. Belgium asks the U.S.S.R. for the release of the 27 crewmen, passengers and the plane.

Ruanda-Urundi

Jan. 18—At the U.N., leaders from Urundi and from Ruanda appeal to the Trusteeship Committee for separate independence for these two territories, and reject the idea of political union.

Jan. 30—Belgian Foreign Minister Paul-Henri Spaak tells the U.N. Trusteeship Committee that Ruanda-Urundi should receive independence by mid-1962. He advocates separate independence for them at this time.

BRITISH COMMONWEALTH OF NATIONS

Australia

Jan. 15—Ballot counts in Victoria and Queensland give Prime Minister Robert Gordon Menzies' coalition government 2 seats in Parliament, bringing the coalition's total to 30 of the 60 Senate seats.

Jan. 23—It is announced that the Commonwealth of Australia and the International Bank for Reconstruction and Development (World Bank) have signed a contract for a \$100 million loan to help finance the Snowy Mountains hydro-electric project.

Canada

Jan. 18—Governor General George F. Vanier presents the Diefenbaker government program to the newly opened Parliament; this is the most lengthy and detailed speech presented in years.

Jan. 19—Minister of Immigration Ellen Fairclough announces new rules ending Canadian discrimination against would-be immigrants based on race, color or creed.

Ceylon

Jan. 5—A one-day general strike is called by Left-wing trade unions to protest the use of military personnel instead of dockworkers; the dockworkers have been on strike for 3 weeks.

The state of emergency is extended because of continuing strikes.

Jan. 29—Seven high ranking officials are arrested for complicity in a plot to overthrow the government of Prime Minister Sirimavo Bandaranaike.

Great Britain (See also *West Germany.*)

Jan. 7—It is reported in London that Brit-

ain has asked Guatemala to an informal conference to discuss the Guatemalan claim to British Honduras (also called Belize).

Jan. 15—The Board of Trade reports that in 1961 exports rose 3.5 per cent and imports fell 3.5 per cent from 1960 figures.

Jan. 23—Chancellor of the Exchequer Selwyn Lloyd tells Commons of new arrangements providing credit for British exporters.

Jan. 29—Wildcat transport strikes cause traffic chaos in London.

Edward Heath, Lord Privy Seal, tells Commons Britain plans to purchase up to $12 million in United Nations bonds by the end of 1963.

India

Jan. 5—A rioting crowd of well-wishers breaks up a mass meeting as Prime Minister Jawaharlal Nehru speaks.

New Zealand

Jan. 2—New Zealand promises Western Samoa up to $120,000 in aid annually.

Nigeria

Jan. 21—The Commonwealth Office reveals that Britain and Nigeria will abrogate their defense agreement and replace it with an informal understanding.

Pakistan

Jan. 11—Unvaccinated persons are forbidden to enter or leave Karachi; a smallpox epidemic has killed 214 persons in Karachi in the past month.

Jan. 25—Six nations plus the World Bank grant Pakistan's request for a $945 million development loan.

Jan. 29—President Mohammed Ayub Khan says Pakistan will have a new constitution and return to parliamentary democracy soon.

Tanganyika

Jan. 22—Julius K. Nyerere resigns as Prime Minister; he is replaced by Rashidi Kawawa, his own choice for this office. A major Cabinet shuffle follows. Nyerere will remain a member of Parliament and president of the Tanganyika African National Union.

BRITISH EMPIRE

Federation of Rhodesia and Nyasaland

Jan. 3—An amendment to the Electoral Act goes into effect; food and lodging provided free is now included toward income qualification for voting. This means that thousands of African domestic servants can vote if literate enough to fill out the enrollment form.

Jan. 4—The British Foreign Office reveals that Britain's U.N. representative, Sir Patrick Dean, has been told to invite Acting Secretary General of the U.N. U Thant to visit Salisbury, Southern Rhodesia, to discuss the Congo-Northern Rhodesian border situation.

Trinidad and Tobago

Jan. 15—It is announced by the People's National Movement that the colony of Trinidad and Tobago will seek independence outside the West Indies Federation.

CAMEROON REPUBLIC

Jan. 2—It is reported that voters in West Cameroon, the former British trust territory that joined the French Cameroon to form the Cameroon Republic, have given a majority to the National Democratic party, in the Dec. 30 elections for a new Legislative Assembly.

CONGO, REPUBLIC OF THE (Leopoldville)

Jan. 4—Katanga President Moise Tshombe tells the Katanga Assembly that only 6 of the 8 points in the Kitona agreement are acceptable. The 2 unacceptable points are acceptance of the Congo's Fundamental Law (provisional constitution) and the carrying out of the U.N. resolutions on the removal of foreigners and mercenaries from Katanga.

Jan. 8—The Chamber of Deputies in Leopoldville adopts a resolution charging Deputy Premier Antoine Gizenga with secessionist activities in Stanleyville. He is ordered to return to Leopoldville within 48 hours.

Jan. 10—The U.N. reports that additional mercenaries are entering Katanga.

Jan. 13—Fighting erupts in Stanleyville between soldiers of Antoine Gizenga and General Victor Lundula's nationalist forces. Acting Secretary General of the U.N. U Thant orders U.N. forces to act to prevent "civil war" in Stanleyville.

It is reported that the Provincial Assembly in Katanga Province has been debating the Kitona agreement to end Katanga's secession for 10 days.

Jan. 14—34 soldiers under Gizenga surrender to General Lundula. Gizenga sends a message to the central government that he will return to Leopoldville shortly to resume his duties as First Vice Premier.

Jan. 15—The central government's Chamber of Deputies votes to censure Gizenga. It is reported that over 300 of Gizenga's soldiers surrendered to Lundula yesterday, leaving the Vice Premier without military support.

Jan. 16—Premier Cyrille Adoula announces that Gizenga has been dismissed as First Vice Premier as a result of his censure.

Jan. 20—Gizenga returns to Leopoldville and is placed under U.N. guard.

Jan. 23—U Thant asks nations that donated troops to the U.N.'s Congo force for reinforcements.

Gizenga is transferred to the custody of the central government; apparently he remains under house arrest, although his arrest has not been confirmed.

The Soviet Union calls for a Security Council meeting to discuss the U.N. failure to oust foreign mercenaries from Katanga.

Jan. 29—A report by Dr. Sture C. Linner, retiring head of the U.N. operation in the Congo, declares that Tshombe's request for a one-month extension before beginning the ouster of foreign mercenaries from Katanga is "unacceptable"; their removal must start "immediately."

CUBA

Jan. 2—At the third anniversary celebration of the revolution by Premier Fidel Castro, 500,000 persons gather. Castro tells the crowd that he will call a mass rally on January 22 to protest the meeting of the O.A.S. to discuss Cuba and the Communist threat to the Western hemisphere. (See also *Int'l., O.A.S.*)

DOMINICAN REPUBLIC

Jan. 1—A 7-man Council of State is inaugurated; it pledges to restore civil liberties. Rafael Bonnelly becomes Vice-President.

Jan. 4—The Council of the Organization of American States votes to lift diplomatic and economic sanctions against the Dominican Republic, imposed in August, 1960.

Jan. 5—The Council of State announces that the properties of ex-dictator Generalissimo Trujillo, his family and associates have been confiscated by the state.

Jan. 6—The U.S. and the Dominican Republic renew diplomatic ties.

Jan. 7—Teodoro Moscoso, head of the Latin American section of the U.S. Agency for International Development, arrives in the Dominican Republic on a technical and financial mission. He declares that the Dominican Republic presents "an emergency situation."

Jan. 12—It is reported that a conflict is growing over President Joaquin Balaguer's failure to resign. Balaguer had promised to resign when the O.A.S. lifted sanctions, and no later than the end of February.

Jan. 16—Troops and police battle with anti-Balaguer rioters. Four persons are killed. A radio broadcast from Santo Domingo reports that the Council of State has resigned, and has been replaced by a civilian-military junta.

Jan. 18—The Council of State regains control of the government and ousts the junta set up by Major General Pedro Rafael Rodriguez Echavarria. Rodriguez Echavarria is imprisoned. The Council accepts the resignation of Balaguer. Vice-President Rafael Bonnelly becomes the new president.

Jan. 22—The U.S. issues a $25 million emergency credit to the Dominican Republic to help offset the Republic's balance of payments difficulties.

EL SALVADOR

Jan. 5—The Constituent Assembly approves a new constitution to replace the 1950 constitution.

Jan. 25—Provisional President Eusebio Rodolfo Cordon is inaugurated. He observes that his inauguration marks the first anniversary of the overthrow of the leftist junta in January, 1961.

FINLAND

Jan. 15—The Finns vote for a 300-man electoral college at the start of a 2-day presidential election. The electoral college will meet February 15 to select the president.

Jan. 17—With returns in, it is made known that a record 2 million Finns voted in the election. President Urho Kekkonen receives an overwhelming majority of the popular vote. Kekkonen's Agrarian party receives 145 seats in the electoral college.

FRANCE

Jan. 5—Military reinforcements are ordered to Paris. The Government prohibits a demonstration called by the Communist party to protest an attack yesterday on party headquarters.

Jan. 6—Security forces patrolling Communist party headquarters keep order as Communist supporters gather for a scheduled demonstration.

Jan. 18—Minister of Finance Wilfrid Baumgartner resigns. He is succeeded by Valery Giscard d'Estaing.

FRANCE OVERSEAS

Algeria

Jan. 3—An incomplete count lists 41 persons dead and 78 injured as a result of fighting in several cities in Algeria.

Jan. 4—Violence continues to sweep Algerian cities. Raoul Salan, head of the illegal Secret Army Organization (O.A.S.), issues a manifesto calling for the mobilization of Algerians to prevent an Algerian cease-fire between French and Algerian rebel leaders.

Jan. 6—It is reported that talks between French officials and Algerian nationalists have bogged down.

Jan. 7—French troops move into Algerian cities.

Jan. 8—The Secret Army Organization (composed of European ultras) stages a 2-hour strike in the cities of Algiers and Oran.

Jan. 10—Leaders of the Algerian Provisional Government in exile, after a 4-day meeting in Morocco, issue a communiqué. The leaders reaffirm their desire to achieve peace in Algeria. They declare that they will wage war against the ultra Europeans (formerly regarded as "an internal French problem").

Jan. 11—French officials ask for additional military reinforcements for Algeria.

Jan. 12—The Secret Army Organization broadcasts to Europeans and Muslims in Algeria. The audience is warned to stockpile a 2-month food supply.

Jan. 15—It is made public that outbreaks of violence in Algerian cities yesterday have caused the deaths of 36 persons.

Jan. 16—French officials call for an end to violence in Algiers.

Jan. 17—The French Cabinet meets to discuss the intensified violence sparked by the European Algerians.

Jan. 19—The O.A.S. orders all civilians in Algeria to allow themselves to be mobilized without difficulty. The O.A.S. also declares that anyone who leaves Algeria without permission of the O.A.S. will be punished.

Jan. 21—The O.A.S. attacks a French army post near Oran and captures guns and other equipment.

Jan. 22—The French government orders security measures for Algiers, Oran and Bone.

Jan. 23—The O.A.S. calls on Europeans in Algiers, Oran and Bone to demonstrate tomorrow against French President Charles de Gaulle. In Algiers and Oran terrorists cause the deaths of 8 persons.

Jan. 24—In Algiers, Oran and Bone Europeans stage a protest demonstration against de Gaulle and in support of the O.A.S.

Jan. 26—It is reported that France has asked Algerian nationalists to sign a cease-fire agreement to undermine extremist groups on both the rightist and Muslim sides.

Jan. 29—A blast in Algiers set off by the O.A.S. is reported to have destroyed the secret headquarters of a French secret service unit.

GERMANY, EAST
(German Democratic Republic)

Jan. 22—A.D.N., the East German press agency, reports that a bill has been put on the parliamentary agenda to establish military conscription.

GERMANY, WEST (Federal Republic of)

Jan. 8—In Washington, West German Economics Minister Ludwig Erhard discusses Germany's contribution to Afro-Asian development. Erhard meets with Kennedy and U.S. Secretary of State Dean Rusk, among others.

British Prime Minister Harold Macmillan flies to Bonn for talks with West German leaders, in particular to discuss the British request for German aid to help maintain the British Army of the Rhine.

Jan. 26—The special international commission grants another 6-month delay in the order to Alfred Krupp to break up his coal and steel empire. The order was originally scheduled to take effect January, 1959.

GREECE

Jan. 2—Premier Constantine Caramanlis announces that the Greek gross national product for 1961 rose by 11.2 per cent.

Jan. 8—The Archbishop of Athens and Primate of Greece dies at the age of 71.

Jan. 13—Iakovos is selected new Archbishop Primate of the Church of Greece.

Jan. 24—The Greek government announces it will initiate legislation to remove Archbishop Iakovos who has been accused of "unmentionable acts."

Jan. 25—Iakovos abdicates.

GUATEMALA

Jan. 25—A state of siege is proclaimed in Guatemala following the assassination last night of Guatemala's secret police chief.

INDONESIA

Jan. 16—The Netherlands Navy announces that Dutch destroyers attacked 3 Indonesian torpedo boats. Naval officials charge that the boats were heading toward Netherlands New Guinea for an invasion.

Jan. 18—The Netherlands accepts U.N. Acting Secretary General U Thant's suggestion for talks by Thant and the Netherlands' and Indonesian delegates to the U.N. The talks will try to settle the conflict over Indonesia's claim to New Guinea.

Jan. 20—In a letter to Thant, President Sukarno agrees to the proposed mediation of the dispute.

Jan. 31—Foreign Minister Subandrio declares that Indonesia will fulfill the Netherlands goals for New Guinea if it is brought under Indonesian control. He also states that the people of New Guinea will be allowed to secede from Indonesia after from 10 to 15 years of union, if they desire independence.

IRAN

Jan. 10—It is announced that the Cabinet has adopted a land reform law dividing large landholdings among landless peasants. A landlord is barred from owning more than one village; his excess holdings will be sold.

Jan. 15—Shah Mohammed Riza Pahlevi signs the land reform bill.

ISRAEL

Jan. 9—The *Knesset* (Parliament) approves regulations limiting Israeli-German relations. Travel, cultural and educational exchanges are severely curtailed.

Jan. 14—Israel Beer, a leading member of the Ministry of Defense, is convicted of spying for a Communist power.

ITALY

Jan. 21—The pilot of the Bulgarian MIG fighter plane that crash-landed in Italy yesterday requests asylum.

JORDAN

Jan. 30—A son is born to King Hussein, and is proclaimed the Crown Prince.

KUWAIT

Jan. 20—A radio broadcast monitored in Jordan discloses the opening of the first 20-man Constituent Assembly to draft a permanent constitution.

LAOS

Jan. 4—The National Bank of Laos orders

all banks not to exchange Laotian money for foreign currency. It is reported that this step is the result of the withholding of American financial assistance to force Premier Boun Oum into a coalition government.

Jan. 6—Britain and the Soviet Union, co-chairmen of the 14-nation Geneva conference on Laos, send a conference-approved message to the 3 rival Princes in Laos. The Princes are requested to come to Geneva to negotiate a new coalition government for Laos.

Jan. 11—The 3 rival Laotian princes accept the invitation of the Geneva conferees.

Jan. 12—The U.S. declares that monthly aid payments to Prince Boun Oum's rightist government will be resumed. The January payment has been withheld.

Jan. 13—U.S. Assistant Secretary of State for Far Eastern Affairs, W. Averell Harriman, leaves for Geneva to help settle rivalries among the rightist, neutralist and pro-Communist Princes.

Jan. 16—At Geneva, Prince Boun Oum refuses to appear before the 14-nation conference unless his right-wing government is recognized as the only legal one for Laos. It is also reported that in any coalition government Boun Oum insists that the vital ministries of Defense and Interior be filled by his right-wing faction. Both the U.S. and Soviet delegates to Geneva agree that neutralists must hold these posts.

Jan. 19 — Neutralist Prince Souvanna Phouma announces an agreement with Boun Oum and pro-Communist Prince Souphanouvong on a coalition government for Laos.

Jan. 21—Premier Boun Oum returns to Laos and denies that agreement has been reached on a coalition government. He says further talks on a coalition government must be held in Laos.

LEBANON

Jan. 1—Lebanese army units move against rebels who attempted to overthrow the government yesterday.

Jan. 20—Captain Fuad Awad, leader of the revolt, is captured.

MOROCCO

Jan. 23—King Hassan II announces an agreement with Algerian Provisional Government leaders to set up a Moroccan-Algerian commission. The commission will lay the groundwork for a "United Arab Maghreb," i.e., a North African Union.

PHILIPPINES, THE

Jan. 21—President Diosdado Macapagal announces that controls on currency are lifted. On the free market, the peso is in effect devalued.

Jan. 22—Macapagal tells the Philippine Congress that the U.S. has agreed to assist the currency de-control program with a $300 million grant from its stabilization fund.

PORTUGAL

Jan. 1—A rebel group attacks a Portuguese army barracks at Beja and is quickly routed by loyal army troops. The rebels were led by suspended army Captain Joao Maria Paulo Varela Gomes.

Jan. 3—Premier Antonio de Oliveira tells the National Assembly that Portugal plans to drop her U.N. membership. The Premier severely condemns Britain and the U.S. for not strongly supporting Portugal in the U.N. when India seized 3 of its enclaves.

Jan. 31—Police disperse some 5,000 demonstrators protesting the Salazar regime.

SAMOA, WESTERN

Jan. 1—Western Samoa becomes independent; it was formerly administered by New Zealand.

SOUTH AFRICA

Jan. 23—Prime Minister Hendrik Verwoerd announces that the Transkei, a black African territory, will be given control of its internal affairs in 1963. This is regarded as part of South Africa's policy of separate development of its races.

Jan. 31—Chief Albert Luthuli issues a statement protesting self-government in the Transkei and urging multi-racialism.

SYRIA

Jan. 15—The 16-man coalition cabinet headed by Premier Maarouf Dawalibi is approved by the Syrian parliament.

TUNISIA

Jan. 20—Talks between French and Tunisian officials on the evacuation of the French base at Bizerte are suspended because of a deadlock.

U.S.S.R., THE (See also *Int'l. Berlin*)

Jan. 17—*Pravda* (Communist party newspaper) sharply criticizes Vyacheslav Molotov and others for "anti-party" activity. On January 8, it was reported that Molotov, ex-premier and foreign minister, was returning to his post as Soviet delegate to the International Atomic Energy Agency. The statement was retracted the following day without further comment.

Jan. 21—*The New York Times* reports that the world Communist movement is facing serious division over Moscow-Peking rivalries, and that the Soviet Union is facing demands for independence from other national Communist parties.

Jan. 23—The widow of Leon Trotsky, Natalia Ivanova Sedova Trotsky, dies in Paris.

UNITED STATES

Civil Rights

Jan. 29—The President's Committee on Equal Employment Opportunity announces that manufacturing concerns with $50,000 or more in federal contracts must report the number of their Negro employees to the Government by April 1.

The Economy

Jan. 22—President Kennedy reports to Congress that because of Administration policies "The momentum in our economy has been restored." This is his first annual Economic Report.

Jan. 26—The Department of Labor reports that the Consumer Price Index in 1961 rose less than it has at any time since 1955. The increase over 1960 was one half of one per cent.

Foreign Policy

Jan. 12—It is revealed in Washington that President Kennedy has decided that the 3 living ex-Presidents of the United States should receive periodic briefings on intelligence in foreign affairs and national security.

Jan. 22—Attorney General Robert Kennedy refuses an informal invitation to visit the U.S.S.R. during his coming world tour.

Jan. 25—Secretary of State Dean Rusk asks the foreign ministers of the American states to adopt a program excluding Cuba from inter-American organizations, refusing to trade with Cuba and ostracizing Cuba.

Jan. 28—The U.S. and the U.S.S.R. open negotiations for a new cultural exchange agreement.

Jan. 30—Aleksei I. Adzhubei, son-in-law of Soviet Premier Nikita Khrushchev, lunches with President Kennedy at the White House.

Kennedy tells Congress that the purchase of U.N. bonds is vital to the country's interest.

Jan. 31—Kennedy tells his news conference he is pleased with the O.A.S. exclusion of Cuba. (See *Int'l., O.A.S.*)

Government

Jan. 4—The President names Raymond F. Ferrell Commissioner of the Immigration and Naturalization Service, succeeding Joseph M. Swing. This is a recess appointment.

Jan. 7—The Peace Corps asks for 800 additional volunteers to double its enrollment.

Jan. 10—The second session of the 87th Congress opens. Massachusetts Democrat John W. McCormack is elected Speaker of the House.

Jan. 13—Directors of the New York Central and Pennsylvania railroads approve a merger of the two largest roads in the country. The merger must be approved by the Interstate Commerce Commission and stockholders of both companies.

Jan. 18—The President sends a balanced budget to Congress, estimating spending at $92,537,000,000 and revenue at $93,000,000,000 in fiscal 1963. He asks for $99.303 billion in spending authority for fiscal 1963 and $3.778 billion more for fiscal 1962. The estimate for foreign aid needs is $4,897,000,000. A record $51.6 billion is asked for defense.

Jan. 22—The President asks Congress to demonitize silver eventually "except for its use in coins."

Jan. 23—American Airlines and Eastern Airlines directors approve their merger;

this merger to form the world's biggest airline will need approval from stockholders of both companies and the Civil Aeronautics Board.

Jan. 25—The President asks Congress for authority to adjust tariffs and to reduce existing tariffs as much as 50 per cent; he suggests an "adjustment assistance" plan to replace tariff protection.

Jan. 29—The Treasury reports that the national debt now stands at $297,900,000,000.

Abraham Ribicoff, Secretary of Health, Education and Welfare, outlines a new plan under which mothers in families on relief may earn money to educate their children without having the amount deducted from monthly welfare grants. This plan will be optional for states.

Jan. 30—Democrat Ray Roberts is elected to the seat of the late Sam Rayburn in a special election in Texas.

The President sends Congress a plan to establish a Department of Urban Affairs and Housing by executive power. The Housing and Home Finance Agency would be incorporated in the new department. The President has already revealed his plan to make Robert C. Weaver Secretary of the new Department. Weaver would be the first Negro Cabinet member. If neither the Senate nor the House vetoes the plan by majority vote in 60 days, the plan automatically takes effect.

Jan. 31—President Kennedy offers Congress a new farm program, including suggestions for tighter controls and, for the first time, controls on milk.

Kennedy asks for a congressional investigation of the stockpiling of war emergency goods by the Government.

John A. McCone is approved by a Senate vote of 71 to 12 as director of the Central Intelligence Agency.

The Outdoor Recreation Resources Review Commission gives President Kennedy a 5-point program for utilizing outdoor resources; this is the result of a 3-year national study.

Labor

Jan. 18—Nine thousand striking electrical construction workers in New York sign a contract providing for a basic 5-hour working day; they will work a sixth hour at time and a half. Their total weekly pay will be $161.20.

Jan. 20 — Administration officials and A.F.L.-C.I.O. leaders indicate displeasure at the 5-hour work day for electricians.

Military Policy

Jan. 3—The President reveals that two new permanent divisions of the Regular Army are being activated, making a total of 16 permanent divisions and permitting the release of two National Guard divisions later this year.

Jan. 22—Before the Special Senate Armed Services Subcommittee begins hearings on charges that the Administration has "muzzled" high military officers, former Secretary of Defense Robert Lovett warns against military officer speech-making that might involve speakers in politics.

Jan. 24—President Kennedy takes issue with former President Eisenhower and reiterates his support of Pentagon censorship of speeches made by the military.

Jan. 26—Secretary of the Army Elvis J. Stahr Jr. announces that 88,500 regular army men whose duty had been extended because of the Berlin crisis will be released by July 31.

A Ranger 3 moonshot fails; the rocket will go into orbit around the sun.

Jan. 27—The orbital flight of Lieut. Col. John H. Glenn is postponed because of bad weather; Glenn spent 4 hours waiting in his capsule.

Jan. 30—The attempted human orbital flight is postponed to February 13.

Jan. 31—The Army reveals that phased reduction in overseas duty tour length will start July 1.

Politics

Jan. 12—Ohio's Governor Michael V. DiSalle says he will be a gubernatorial candidate for a second four year term.

Jan. 14—Philadelphia's Mayor Richardson Dilworth resigns, making himself eligible as a gubernatorial candidate in Pennsylvania.

Jan. 16—Former California Governor Goodwin J. Knight says he will not be a candidate for the gubernatorial race because of ill-health. Knight was former Vice-President Richard Nixon's foremost rival for the Republican nomination.

Richard J. Hughes is sworn in as New Jersey's Governor.

Segregation

Jan. 5—Louisiana laws requiring bus and train terminal segregated facilities are ruled unconstitutional by a 3-judge federal court.

Jan. 8—The Cosmos Club of Washington, D.C., refuses to admit as a member Carl T. Rowan, a high official in the State Department who is a Negro. J. Kenneth Galbraith, Ambassador to India, resigns from the Club in protest. By this action, the application of President Kennedy for membership is automatically withdrawn because Galbraith was a co-sponsor of Kennedy's application.

Jan. 28—The Justice Department reports that bus and rail terminals in the South have practically abandoned official segregation.

Jan. 30—50 students picket at the all-Negro Southern University and Agriculture and Mechanical College; they hope for a general protest boycott of classes because students have been suspended for anti-segregation activities.

URUGUAY

Jan. 19—Foreign Minister Homero Martinez resigns when the executive branch, the 9-member Council of Government, fails to agree on whether or not to support sanctions against Cuba at the forthcoming Inter-American conference at Punta del Este.

VENEZUELA

Jan. 8—Constitutional rights are partly restored; they have been suspended since December, 1960.

Jan. 24—Some 2,000 government troops are moved into Caracas to keep order following 3 days of left-wing terrorist attacks.

VIETNAM, SOUTH

Jan. 8—The National Economic Council is inaugurated; it will act as adviser to the government on economic affairs.

Jan. 9—It is reported that Communist guerrilla campaigns have been intensified along the Mekong River Delta.

(Continued from p. 178)

natively should we contemplate actually joining the Common Market ourselves? The way we answer these questions will, I suppose, be determined primarily by what we think European integration can accomplish, and by how serious we consider the external dangers to which we are now exposed. On the first of these issues I agree with the basic E.E.C. position that efforts to integrate will be both ineffective and pointless unless they serve the deeper objective of some sort of political unification. It is for this reason that talk of the United States "joining" the Common Market seems to me premature. There is, as yet, no substantial body of public opinion willing to curtail our sovereignty and share our advantages even with those nations with which we feel the most fundamental community of values. Yet so fast are events moving in the modern world that I should not be surprised at all to find the question had become entirely realistic within a decade, assuming, of course, that other and graver developments have not made the whole issue meaningless.

On the more immediate issue of whether United States policy should in effect support European unification or settle for immediately practical means of economic cooperation with the individual countries, I cannot resist the impression that a policy of mere expediency would certainly not suffice to cope with the problems of the appalling character we now face.

The European Community had as its original impulse the desire to make sure that there would never again be a war between France and Germany. In this basic motivation to find a new path to peace it resembles the United Nations. Unlike the United Nations, however, the E.E.C., is pursuing this objective by the path of federation and the development of supranational institutions. It is vital to humanity to find out by practical experiment which of these two paths offers the greater hope of achieving our goal.